

DEVELOPMENT
OF
ECONOMIC IDEAS
IN INDIA

(1880 - 1914)

P. K. GOPALAKRISHNAN

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PREFACE

In the following pages an attempt has been made to describe the development of economic ideas in India. Such historical study has important bearings on the problems of the day even when the political scene has changed from the old colonial context out of which the ideas discussed here arose. Independent India has still to perform the tasks of framing broad policies of economic development, welfare, protective tariffs, currency and public finance which were the chief occupations of its earlier days. Besides when the history of economic doctrines is an adjunct of the history of economic development, the study of economic theory in a country and at a given time must needs be grounded on the specific issues as they have emerged out of the history of that country. It is for this double reason that a historical treatment of Indian economic ideas bears a contemporary interpretation involving certain value judgments.

This task has been sought to be performed in five chapters each dealing with one important stage represented by its most well-known economist. These chapters make no claim to do more than survey certain aspects of the field, and they ignore many others which could be easily considered to be more worthy of study. It is, however, hoped that the field chosen is significant.

I am grateful to the Economic Faculty of the University of Amsterdam for permitting me to submit this dissertation for the Doctor's degree of the University. I am deeply indebted to my promotor Prof. Dr I.J. Brugmans, professor of Economic History at the University of Amsterdam, who has given me much encouragement by his sympathetic judgment and practical advice. My special thanks are due to Prof. D.P. Mukherjee and Prof. Dr S. Hofstra who have assisted me in many ways.

I gladly take this opportunity to express my thanks to the Netherlands Universities Foundation for International Co-operation and the Institute of Social Studies, The Hague whose fellowship enabled me to complete this work in time.

P.K. Gopalakrishnan.

March 1954.

CONTENTS

| | Page |
|---|------|
| Preface | |
| Chapter 1. - The Socio-economic Background of Early Economic Ideas in India. | 1 |
| Economy and Culture in pre-British India. | 2 |
| Western Capitalism and its relation to Colonialism. | 5 |
| British Conquest of India and its special nature. | 7 |
| The decline of handicrafts and artisan industries. | 10 |
| Rise and development of means of transport and modern industries. | 13 |
| The growth of modern education and the rise of new social classes in India. | 15 |
| Chapter 2. - Dadabhai Naoroji. | 17 |
| Forces leading to the 'Drain Theory'. | 18 |
| National Income. | 19 |
| Criticism of Dadabhai's National Income Estimate. | 21 |
| Taxation and Financial Administration. | 23 |
| Military Expenditure. | 27 |
| Public Debt. | 29 |
| The Socio-economic results of Foreign Civil Services. | 30 |
| Foreign Trade. | 32 |
| The 'Drain Theory'. | 36 |
| Estimate. | 38 |
| Chapter 3. - Mahadev Govind Ranade. | 44 |
| The Background of Ranade's Economics. | 45 |
| The Theoretical Background and Ranade's Criticism of Classical Political Economy. | 45 |
| Ranade and the Evolution of a Theory of Economic Development. | 49 |
| State Action. | 50 |
| Industrialisation. | 52 |
| Agriculture and Industries based on Agriculture. | 53 |
| Ranade's ideas on rent and agrarian laws in India. | 54 |
| Credit, Investment and Employment. | 56 |
| Population. | 57 |
| Comments on the System of Territorial Division of Labour. | 57 |
| A critical estimate. | 59 |
| Chapter 4. - Gopalkrishna Gokhale. | 64 |
| The Background. | 64 |
| Taxation and the revenue system. | 64 |
| (a) The Salt Duty question. | 65 |
| (b) The Cotton Duties. | 65 |
| (c) The Land Revenue Problem. | 66 |
| Public Expenditure, Currency System and Financial Reforms. | 67 |
| (a) Welby Commission. | 69 |
| (b) Financial Control. | 69 |
| (c) Provincial Finance. | 71 |
| (d) Public Expenditure. | 72 |
| (e) The era of Surpluses. | 76 |
| Estimate. | 79 |
| Chapter 5. - Romesh Chandra Dutt. | 83 |
| R.C. Dutt's method. | 87 |
| His work. | 87 |
| Defects in Agrarian Structure as obstacles to Economic Development. | 88 |
| Problems of Economic Development in India. | 89 |
| An Estimate. | 97 |
| Chapter 6. - The Quality of Early Indian Economic Thought. | 100 |
| | 101 |

Chapter I

The Socio-economic Background of Early Economic Ideas in India

1. Indian nationalism is a modern phenomenon which came into being during the British period as a result of an action and interaction of numerous subjective and objective forces which developed within the Indian society under conditions of political subjection.¹ The vast territories of India offered great natural wealth and resources; yet these resources and possibilities remained undeveloped after a century of imperialist rule, 'strange because upto the eighteenth century the economic condition of India was relatively advanced and Indian methods of production and of industrial and commercial organisation could stand comparison with those in vogue in any other part of the world'.² Pre-British Indian society had a unique social structure which differed in its economic base from the medieval precapitalist European societies. Britain radically changed the economic structure of the Indian Society to suit its own purpose, established a centralised state and introduced Western education and European institutions. In the process there grew up 'new social classes and forces unique in themselves',³ unleashing motive power for the rise and development of nationalism. Modern India is a unique social phenomenon from every point of view. A few competent books had appeared on the subject, but the pattern was usually missed and the main thread was invariably identified with nationalism. 'As culture is the whole social process, a sociological point of view should reveal the silent process of social change going on beneath the prominent behaviours. Once the nature of that process is understood, the 'nature' of the Indian 'Society' which is the context of this culture, is neither the actuality of recorded history nor the potentiality of fulfilment. It is the artifice of an unreal class-structure unrelated to societal principles'.⁴

Indian culture considered as a social and historical process represents certain common traditions that have given rise to a number of general attitudes. The major forces such as Hindu philosophy, Buddhism, Islam, Western commerce and culture have gone into their making. The assimilation and conflict of such varying forces made Indian culture neither Hindu nor Islamic, neither a replica of the western modes of living and thought nor a purely Asiatic product.⁵ Scientifically speaking nobody can assess the contribution accurately. Yet, historically speaking, the indigenous and the incoming forces had welded Indian society into a more or less organic whole, until western commerce arrived. At the end of the eighteenth century, social order in India mainly discharged obligations to the family, to the caste and to the village Panchayats working on the basis of economic self-sufficiency; and in addition to the guilds and corporations on the basis of trade and commerce between urban areas.⁶ Agriculture was the main vocation for the millions, and commerce was only the specialised vocation of the few. Indian society was mainly a 'closed' one if it was not static. Naturally when it remained so over a long period, it developed the 'identational' traits of culture with more or less defined views on nature of needs and ends and the means of their satisfaction, i.e., of social activity, with specific aesthetic, moral and social values and systems.⁷ Before the impact of western commerce and administration, it was the ruling type in India. After the British rule, the impact of which is of a different order, it pretends to be so. Now, Indian society is no longer a closed one and Indian culture, naturally, is

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1. Direct British territorial rule in India dates from the traditional starting point, the Battle of Plassey, 1757.
 2. Dr Vera Anstey - The Economic Development of India, 3rd Edition, 1936, Introduction - p. 5.
 3. E.H. Carr - Nationalism.
 4. D.P. Mukerji - Modern Indian Culture - p. 1.
 5. D.P. Mukerji - Modern Indian Culture - p. 1.
 6. Moreland, India at the Death of Akbar.
 7. P. Sorokin - Social and Culture Dynamics, vol. I.

only a pseudo-ideational system. The British rule has changed the very basis of Indian social economy. The indigenous middle class interests in trade and commerce were first supplanted by British agencies and middlemen. Indians were compelled to become land-minded by revenue policies. They were given education, the chief purpose of which was to create an army of lower class clerks and officials. The Panchayat system was shaken by successive instalments of village self-government. The transport system, inaugurated for the dual purpose of defence and foreign trade, tampered with the physical geography of India.⁸

Under the British, Indian Society was no longer ideational in the true sense of the term. If it retained a religious ideology it was because of inertia or culture lag. The reasons why political, economic and social movements still owed allegiance to religious ideas were: (I) The peculiar position of the middle classes which feel a sense of denial and disillusionment. This feeling in its turn was due to the blocking of the natural economic evolution by foreign economic interests (II). The insufficiency of any other indigenous substitute for the older culture except nationalism, which filled the void in the new situation. Indian society was thus a mechanical mixture of two incompatible elements. Hence it was not stable. The large number of thinkers that it had thrown up in this period was more like a 'series of explosions' than the marked stages in the growth of an organism.⁹ In most cases, they had not percolated through the outer rinds of the Indian society and their contributions to economics, politics and philosophy were mainly historical and usually couched in western terms. The tempo or the rate of Indian social growth had not ceased as the following analysis would show.

2. Economy and culture in pre-British India.

The rise and growth of nationalism in India was intimately bound up with the growth of a unified national economy as a result of the destruction of precapitalist forms of production and its substitution by modern capitalist forms.

a. Village economy.

Indian feudalism was distinguished from European feudalism by the fact that under it no private property in land existed. 'In the Hindu period, the land belonged to the village community and was never regarded as the property of the King. The state had merely existing tenures and tax systems were adopted with some modifications'.¹⁰ The crown had monopoly over forest lands and ownerless estates. The obligations to the King came only to the payment of taxes and the rendering of occasional military service; and the King could not, and would not, demand more in virtue of any superior right. This accounted for one basic difference between the continental type of feudalism and the Indian. The royal right over land did not amount to ownership in the Anglo-Saxon sense of the term. Even conquest did not confer ownership. Jaimini and his commentators, Sabara-Swami, Sri Khanda and Madhavacharya, i.e., right down to quite a late period (and all were famous jurists), insisted that land was not the King's property.¹¹ Their almost socialist view, 'what is yielded by land as the fruit of labour on the part of all beings must be enjoyed by them as their own property' was perhaps not actually practised in a strict sense. Scholars have un-earthed a mass of evidence of exploitation or 'Pidan' as Kautilya puts it.

The Muslims only played a variation of the theme. They established a stronger central administration than before and the military connection with the chiefs was emphasised. The combination of bureaucratic functions with the fiscal and the military made the Jagir system into which the older Indian landlordism developed

8. Marx and Engels on India - People's Publishing House, Bombay.

9. D.P. Mukerji - Modern Indian Culture.

10. Wadia and Merchant, Our Economic Problem - p. 234.

11. R.K. Mukerji - Indian Land System - gives extensive quotations.

look very similar to the Russian type of feudalism, known as the boyar system.¹² The Hindu and the Muslim assignees, chiefs and the able farmers had at last formed an economic class, viz., the baronial. 'The connection between this class and nationalism was economic, in as much as both were the historical expression of the rise of a class. It is a historical fact that the Muslim rule was economically a progressive force in as much as it was an advance upon the earlier inchoate forms of economic relations. From that can also be traced the history of national literature and the Bhakti resurgence which synthesized the Hindu and the Muslim cultural traditions into cultures of nationalities'.¹³ Such was the general picture the main outlines of which could not be changed by Sher Shah's predilection for direct contact with the peasants, nor even by Akbar's attempts to substitute kind by cash in the crownlands. This was shown by the fact 'None of the major struggles in Indian history had for its object the exercise of rights within the village but the exercise of rights over the village. There were no conflicts between overlords of various grades for the right or power to get a payment from the peasant, nor to seize his land. European history, on the contrary, reveals a conflict between the peasantry and the manorial lords because the latter not only demanded a share of the produce, but desired to retain a particular method of cultivation (enclosures, large scale farming). The Indian conflict was one between lords who were concerned not at all with methods of cultivation but to draw an income from the peasantry. The issue was always between different claimants of the sword, the village and the peasantry remaining throughout the passive subject of conflict, the booty over which the rival powers fought each other'.¹⁴

Besides the peasantry, the artisan industry (smith, carpenter, potter, weaver, cobbler, oilman etc.) was an important pillar of the economically autonomous Indian village of the pre-British period. All exchange of products produced by the village workers, agricultural or industrial, was limited to the village community. The village population consumed almost the whole of what it produced. The artisan was more a public servant employed by the rural community than a private producer. 'This dozen of individuals is maintained at the expense of the whole community'.¹⁵ What was most striking in such a society was the absence of the phenomenon of the market. Moreover, the technique of village agriculture and industry was on a lower level. 'Simple agricultural equipment and the hand-manipulated tools for manufacture were all that were known. Even windmills and waterwheels were seldom employed'.¹⁶ In such a society, Marx says, 'The chief part of the product is destined for direct use by the community itself and does not take the form of a commodity. Hence production here is independent of that division of labour brought about, in Indian society as a whole, by means of the exchange of commodities. It is the surplus alone that becomes a commodity'. He continues, 'The simplicity of the organisation in these self-sufficing communities that constantly reproduce themselves in the same form and when accidentally destroyed spring up..... remains untouched by the storm clouds of the political sky'.¹⁷ Since economic life was constrained and exchange was limited to a village, there was no stimulus for the development of the means of transport. The bullockcart was the chief means of transport. In short, 'a self sufficient village based on agriculture carried on with primitive plough and bullockpower, and handicrafts by means of simple instruments was a basic feature of pre-British Indian society'.¹⁸ This self-sufficient economy was no appropriate nursing centre for the growth of any consciousness higher than that of the village.

12. Mavor - An Economic History of Russia.

13. D.P. Mukerji - Modern Indian Culture.

14. K.S. Shelvankar - The Problem of India, 1940 - p. 102.

15. Karl Marx - Essays on India.

16. D.H. Buchanan - The Development of Capitalist Enterprise in India, 1934 - p. 15.

17. Karl Marx, Capital, vol. I, chapter XIV - p. 391.

18. A.R. Desai, Social Background of Indian Nationalism - p. 1.

b. The urban economy.

Towns of those days were either seats of Governments or headquarters of kings and emperors with their courts of noblemen, army chiefs and court officials. A few towns of commercial and religious importance also existed side by side. Handicraft industries catered to the diverse and complex needs of the court, nobility and high state officials. It was this urban industry which produced equipment for the army, erected magnificent palaces, great temples and monuments of rare art, of engineering as the Taj Mahal and Kutab Minar. During centuries of their existence the urban handicraft industry of India reached a high level of development and commanded a world market. 'From ancient days, when Indian fabrics, tapestries, gems, carpets, enamels and mosaics adorned the private and public buildings of Rome, down to the beginning of the Industrial Revolution, the world looked to India for its most arresting and exciting wares'.¹⁹ These handicraftsmen were independent producers who owned the tools and raw materials necessary for production, unlike their European counterpart who worked on a wage basis for specific employers. It was true that a class of industrial workers or of merchants existed in the important towns who were really the pre-requisites for a capitalist transformation of the Indian economy and social structure. Commerce capital had developed in India in the same way as it did in Europe, subject to the limitations of geography and the state of arts and crafts in the preceding epoch. Among the masses in rural areas, the bare physical needs determined the nature of the major occupation, namely agriculture, and tradition dictated the rule of the thumb methods in the home industries which operated through apprenticeship in families, castes and guilds. But in the town a merchant class arose very early in the day. We find references to their existence in the Vedic, and to their prosperity in the Buddhist literature. They were no small traders or mere shopkeepers. In spite of what may now appear to be their small transport facilities, they surveyed the market situation in nearly all its aspects.²⁰ Consumption and distribution, chiefly of fancy goods, were co-ordinated by their personal efforts. 'In every sense, they were merchant adventurers taking risks over perilous seas on strange land routes and in strange company, making enormous profits, the proofs of which lay in their conspicuous waste and considerable charities to the monasteries, universities and welfare institutions, no less than in their heavy tributes to the King'.²¹ The trader also acted as an intermediary between the village producer and the town dweller and thus maintained the balance between rural and urban economies. One section of this class further developed its activities by financing trade and commerce and by building storage rooms, a counterpart of modern warehouses.

Prior to the advent of the British and other European powers interested in the trade of the East, the indigenous banking system was centralised in particular families.²² They would finance the military adventures of the kings and nobles, the commercial enterprises of merchant adventurers, as well as town and industry with its ramifications in the hinterland. The village banya was left in peace to look after purely rural interests. The Chettiars of Madras, the Seths of Gujarat and other banking houses are mentioned in old records. The Jagat Seth family stood as a perfect example of the indigenous type of banking. These families would run their business through the 'hundi' system, and its effectiveness was manifest in the fact that nearly the whole of Indian trade was run, controlled and organised by them. But 'what is even more striking was evidence of signal services they rendered to the state not only as the officers of the Royal mints but also by advancing to the royal treasury large sums of money in times of national need'.²³

19. V.F. Claverton - The Awakening of America - p. 18.

20. C.P. Grass - An introduction to economic history - and H. Pirenne's Economic and Social History of Medieval Europe.

21. D.P. Mukerji - Modern Indian Culture - p. 74.

22. L.C. Jain - Indigenous Banking in India.

23. L.C. Jain - Indigenous Banking in India.

However, these classes of industrial workers or of merchants and bankers could not grow into modern proletariat and modern bourgeoisie unlike their European counterparts in the Middle Ages because such a process was arrested by the British conquest and administrative measures. Before the incipient Indian bourgeoisie gathered sufficient economic and political power to bring about such a transformation, the advanced bourgeoisie of England established its won political domination over the country. Another reason perhaps was that the impregnable balanced economy of the self-sufficient village successfully resisted the extension of the trading operation of the mercantile classes into the countryside which restricted the growth of industry and trade. But even this strongest resistance broke down finally under the cumulative pressure of political and economic changes of British rule releasing in its wake a most powerful assault of mass produced goods. For these reasons the evolution of Indian economy was inhibited and a spontaneous emergence of a capitalist order was rendered impossible. What actually happened within the country could be best understood in the wider context of the expansion of predatory imperialism during this period.

3. Western Capitalism and its relation to Colonialism.

From the middle of the nineteenth century upto the outbreak of the first world war - approximately within two-thirds of a century - capitalism became the dominant form of production not merely in one country, England, but all over the world. Between 25 and 30 per cent of the world's population were producing along capitalist lines in 1914. In Great Britain, the United States, Germany and Western Europe in general, capitalism held practically a monopoly of production. At the same time capitalist development had made considerable progress in Russia and Japan, although the remnants of feudalism still existed. In other Asiatic countries, the pre-capitalist forms of production had been definitely undermined. The development of productive forms under capitalism proceeded side by side with a tremendous expansion during this period into areas which had not previously adopted the framework of the capitalist economic system. In countries like Great Britain, the destruction of pre-capitalist forms of production proceeded rapidly so that capitalism soon became the only prevailing form of production. Capitalist forms of production also penetrated into areas which were unable to maintain their political independence and which became the colonial areas of the imperialist (chiefly European) powers - for instance large tracts of Asia and Africa. The interests of the imperialist 'motherlands' decided in Asia and Africa whether and to what extent they should be capitalistically developed and industrialised. The basis of capitalism thus extended in unprecedented proportions. They completely controlled those areas both economically and politically with the result that any natural growth of the indigenous economies was arrested and stifled.

Capitalist expansion during 1850-1914 was at the same time the period of economic progress in all spheres and it was reflected in particular in the growth of industrial production.

Between 1860 and 1913, world industrial production as a whole increased more than sevenfold and this decisive feature continued to dominate the whole period upto the outbreak of the first world war.²⁴ The sevenfold increase in world production was far greater than the increase of population which took place concurrently. Another aspect of the same process, quite a corollary to the above, was the equally tremendous increase in the national incomes of the countries concerned. And as the general increase in production was far greater than the increase in the population during the same period, there was also a rise in the average income per head of the population.

24. These figures are taken from the Quarterly Reports of the German Business Research Institute issued in a special number entitled, *Tendencies of German and World Industrial Production*, Berlin 1933 - as quoted by Pritzsternberg, *Capitalism and Socialism on Trial* - p. 21.

The 'average' income could also increase if the rich got richer and the poor grew poorer - if the 'accumulation of capital' on the one hand was matched by an 'accumulation of misery' on the other. In other words, the average income could increase, whilst at the same time the broad masses of the people grew more and more impoverished. But, in fact, this did not happen. On the contrary wages increased considerably in all the industrial countries. If we take the level of real wages in 1913 as 100,²⁵ then wages in Great Britain stood at 57 in 1850, but by 1855, they had risen to 63 and further increases, with setbacks, followed until the end of the century: 1860, 64; 1870, 70; 1880, 81; 1890, 90; 1900, 100. Wage levels also rose in France decade by decade. Certainly there were big differences between one country and another, but the fact was that even allowing for such differences there was a quite general improvement in the living standards of the working people in all industrial countries.

All this undeniable economic progress of capitalism was only one side of the picture. In this period of rapid capitalist development, progress did not take place all over the world equally. On the contrary, there was little or even no progress and sometimes even a decline in those countries which the capitalist countries had turned into their colonies or which were otherwise more or less dependent on their decisions. The functional reactions between this tremendous development in the capitalist centres and the conquest of colonial and semi-colonial countries are of great significance.

Capitalist progress brought about a considerable growth in the national incomes of the capitalist centres but no approximate increase in the national incomes of the colonial and semi-colonial countries. On the contrary the gap between the metropolitan centres and their colonial and semi-colonial dependencies increased quite considerably precisely in this great period of progress. Colin Clark made an interesting attempt to represent this gap in figures by translating per capita incomes into so-called International Units (an international unit is defined as the amount of goods and services which one dollar would purchase in U.S.A. over the average period 1925-'34). His findings were (1) The incomes of 600 I.U.'s were in capitalist metropolitan countries (2) The incomes below 200 I.U.'s were in those areas which were the objects of imperialist expansion. These people numbered 1,113 millions and represented more than half the population of the world. The miserable standards of living in the colonial and semi-colonial countries could not be explained away simply by saying that they were so low because capitalist industrial development began later in these countries. The speed of capitalist imperialist progress was partly due to the exploitation of colonial and semi-colonial peoples. In consequence the gap in the standards of living between the two groups was made still wider. Further, capitalist development in the metropolitan centres was accelerated to some extent by the fact that industrial development in the colonial and semi-colonial countries was prevented or deliberately slowed down when it could not be prevented altogether. Thus it was not only that industrial development began later in the colonial and semi-colonial countries but also that it was quite deliberately suppressed and hampered by a whole series of measures. For instance, Prof. Buchanan writes about India: 'Here was a country with all the crude elements on which manufacturing depends, yet..... was supporting only about 2%% of her population by factory industry'.²⁶ Whilst world industrial production was constantly breaking its own records, industrial production in India - that is to say, in a country whose population was about as large as that of all the leading capitalist metropolitan centres put together - was about the same absolute volume as that of Australia with a population of only seven millions. This low level of industrial production was not specifically Indian: it was typical of all the colonial and semi-colonial countries.

25. Arthur L. Bowley - *Wages in the United Kingdom*, C.W.P., 1900 - p. 126.

26. D.H. Buchanan - *Development of Capitalist Enterprise in India*, 1934 - p. 450.

Thus even at the height of its forward drive, capitalist system of production was not altogether progressive. It was progressive in England, United States and in the continental capitalist countries and it was progressive in those countries which succeeded in retaining their political independence whilst at the same time experiencing some degree of expansion; but it was not progressive in any of those areas which were the objects of capitalist imperialist expansion - in short, in Asia and Africa.

Capitalism was a dynamic system of production. It set up a ceaseless process of technical development which continually revolutionized its own methods of production and increased the productivity of labour. It expanded in all directions; it enlarged the sphere of capitalist production by destroying former pre-capitalist groups and forms of production and countries which formerly produced by pre-capitalist methods, or drawing them into its own sphere.

Imperialism was characterised by capitalist expansion into areas which it dominated politically and turned into colonies. In addition to this direct and open establishment of political domination, it also extended its own power by turning countries into semi-sovereign, politically dependent area. This colonial drive, which was largely European, reached a certain culminating point in the nineteenth century with an extension of colonialism in Asia and a particularly strong drive from Europe into Africa in the last quarter of the century. Commencing with the year 1876, colonialism in Asia and Africa grew upto the end of the 19th century.

In the last quarter of the nineteenth century colonial possessions in Asia and Africa increased by more than 50 per cent. Through industrial, financial and military superiority a whole series of other countries were reduced to semi-colonial dependencies and deprived them of the levers of power which would have enabled them to decide their own future. At the peak of the imperialist drive, more than half the total population of the world were the objects of colonial or semi-colonial exploitation on the part of the capitalist metropolitan centres.

The relations of the new colonies to the capitalist states were very different from the ancient colonial empires to their 'motherlands'. Ancient Rome exploited her colonies directly either through plunder or tribute, which required no fundamental change in the economic structure of the colonies leaving the old forms of production very often unchanged. But the dynamic industrial economy of the new masters changed the relationship between them and their colonies. The colonies no longer had merely to supply; they also developed into markets to which the goods produced in the capitalist countries were exported. This was the main function of the modern imperialist expansion and it was harnessed into the pursuit of this aim. The need for markets and their opening up necessarily brought about a fundamental change in the economic and social position of the colonial countries. The peasants of these colonies, who produced for themselves more or less all they required, did not represent a market for the foreign products any more than the peasants of Europe did under feudalism. Therefore imperialism set out to destroy the independent peasant economy and a great part of native handicraft. When it thus destroyed certain pre-capitalist forms of production in the colonial areas, capitalist imperialism did no more than it had already done centuries before in its own territories. The only difference was the foreign character of the agent with the inevitable economic and social consequences. India provided a classical example of this new type of colonial relationship.

4. British Conquest of India and its special nature.

In the middle of the nineteenth century, England having adopted free trade, claimed to be the workshop of the world. British capitalism could rely on technical superiority of its industrial production to safeguard its position as the 'despot of the world market'. In 1860, England produced over half the world's coal and pig iron and half of the world's cotton goods. But the great crisis of 1873 gave unmistakable warning that the days of early prosperity for British capitalism had

come to an end; important economic developments had taken place and Britain began to turn from free trade to imperialism. In India, this changeover was particularly marked. In the seventeenth and eighteenth centuries when capitalism was still in its infancy, the merchant classes accumulated their fortunes even by force of arms. It was fundamentally difficult in so far as the period was marked by a pre-occupation with privileged spheres of foreign trade and of foreign investment. This concern with foreign investment was a distinctive mark of the new period which marked the contrast between the age of undeveloped capital accumulation and that of maturing industrial capitalism. In the 1880's there was awakened a new-found sense of the economic value of colonies typified by the demand that 'to make good the loss of the American market, we ought to have the colonial market'. As Professor Clapham has observed, 'Resources were turned towards foreign investment rather than to the rebuilding of the dirty towns of Britain, simply because foreign investment seemed more remunerative'.²⁷ This new preoccupation represented a very different focus of interest and produced a new design of economic strategy from that which had held the minds of the economic schemers of the earlier days. State power could ensure the subjection of the exploited people, preference in trade for the metropolitan power and a number of other material prerequisites. Huge sums were paid annually to the metropolitan country by the colonies and subject nations to which it had exported capital.

The transformation of the feudal economy in India into early capitalistic economy was mainly achieved by the capitalist class of Great Britain and the process of development was determined in nature and extent primarily by the needs and interest of British capitalism. Britain could not use colonial India for her capitalist economic requirements without uprooting the feudal base of Indian society and introducing capitalistic economic forms in India. In fact, every step in the extension of Britain's political sway over India was paralleled by a simultaneous step towards the disruption of the old Indian economic system and introduction of new economic forms.²⁸ It was bound up with the decay and even extinction of old land relations and artisan and handicraft industries and therefore, of these old classes associated with old industries and land system; it was bound up with the emergence of new land relations and modern industries and therefore with the rise of new classes resting on new land relations and new modern industries. In the place of the village commune appeared the modern peasant proprietor or the zemindar, both private owners of land. Along with the dying class of artisans and handicraftsmen, appeared the new and formerly unknown classes such as capitalists, industrial and transport workers and merchants connected with trade in products of modern foreign owned industries. 'England has to fulfil a double mission in India: One destructive and the other regenerating - the annihilation of old Asiatic society, and the laying of the material foundations of Western society in Asia..... The British destroyed it (the Hindu civilization) by breaking up the native communities, by uprooting the native industry..... The political unity of India more consolidated and extending farther than it ever did under the great Moguls, was the first condition of its regeneration..... The zemindari and the Ryotwari themselves, involve two distinct forms of private property in land - the great desideratum of Asiatic society'.²⁹ Historically this introduction of capitalistic forms was a progressive result of British rule; yet to the extent this transformation was subjected to the economic requirements of British trading, industrial and banking interests, the independent and untrammelled economic development of Indian society was arrested.³⁰

The British conquest of India superseded the traditional right of the village community over the village land and created two forms of property in land; land-

27. Clapham - Economic History - p. 79.

28. R.C. Dutt - Economic History of India under British Rule.

29. Karl Marx - Articles on India - People's Publishing House, India - p. 59-60.

30. Gadgil - Economic History of India; and R.P. Dutt, India Today.

STELLINGEN

I

For Asian countries historiography needs reorientation. Any theory of Asian history will have to be built upon the tension between the search for the values unique to the system of nation-culture and the forces that tend to unify historical process.

II

In the early stages of industrialisation of an overpopulated agrarian country, it is possible that the income effect of a rise in the price of food stuffs on its supply will more than offset its price effect and thus produce the situation of a backward-sloping supply curve of agricultural output.

III

In underdeveloped countries, labour may be plentiful but capital is scarce and hence 'saving' remains necessary to relieve the pressure on existing capital equipment. But this situation can be partly met by turning the surplus labour to export industries which require little capital equipment.

IV

In view of the narrowness of existing transport facilities in India and the prohibitively high investment-cost of enlarging them rapidly, development of industry on the basis of a large amount of inter-regional exchange is automatically ruled out in India. A large and rapid development of industry will be possible only on the basis of a location policy that is highly transport-economising.

V

Major causes of economic change like scientific progress, population growth or social revolution, though they may involve non-economic forces, should not be regarded as exogenous, that is, as external to the economic system. Such causes must be regarded as within the order of economic causation.

VI

The major difficulty of any study of economic welfare lies in the first step one has to take in comparing different persons' welfare for arriving at some measure of social welfare. The perfect competition ideal loses much of its force due to our inability to solve the complications arising out of redistribution caused by changes in relative prices.

VII

Disguised unemployment in underdeveloped economies is not a result of decline in effective demand; it is in fact an indication of chronic shortage of real capital.

lordism in some parts of the country and the individual peasant proprietorship in others. Not only economic but also political reasons were behind the attempts of the British to prevent, or, if that proved impossible, to slow down the industrial development in the Indian colony. It also became necessary for the imperialists to look around for reliable allies among the colonial population. Now the only social strata where such allies could be found was amongst the feudal ruling classes, and towards the end of the eighteenth century, a new class of landlords was created with the so-called land settlements. In 1793, Lord Cornwallis completed this process by introducing the Permanent Land Settlement for Bengal, Bihar and Orissa. With it for the first time private property in land came into being. Before this settlement, 'Neither in a feudal nor an imperial scheme there was any notion of the ownership of the soil vesting in anybody except the peasantry'.³¹ In a speech delivered during his term of office, as the Governor General of India, Lord William Bentick referred quite openly to the alliance formed by British imperialism with the newly created feudal class in India: 'If security was wanting against the extensive popular tumult or revolution, I should say that the Permanent settlement, though a failure in many other respects and in its most important essentials, has this great advantage at least of having created a vast body of rich landed proprietors deeply interested in the continuance of the British dominion and having complete control over the mass of the People'.³²

Under the Ryotwari, the individual cultivator was transformed into the owner of the land he tilled. Henceforth, land became private property and a commodity which could be mortgaged, purchased or sold in the market. With it came into existence insecurity of possession and ownership of land, a phenomenon unknown before. Under the new system the peasant produced mainly for the market, which, with the steady improvement of means of transport and expanding operations of trading capital under the British rule became available to him. Thus it led to what is known as the commercialisation of agriculture and the practice of growing specialised crops by the peasants. 'With the rise of modern industries in England, the necessity of raw materials for these industries grew. British government in India pursued economic policies which expanded the area of growth of such raw materials as needed by British industries together with foodstuffs for the increasing population of Britain, created a British market for these products and thereby accelerated the commercialisation and specialisation of Indian agriculture'.³³ This 'brought about a slightly better distribution of the crops and increased profits of cultivation'.³⁴ The striking feature of this process was politically a very important phenomenon. The same capitalism which developed in Europe in a struggle against feudalism, which it partly destroyed and whose influence it greatly reduced, now supported feudalism in its colonial empire. In many instances it actually developed feudalism anew, and it did so because the feudal elements and their satellites, the usurers and tax officials, represented its only important political allies.

Now this alliance between European imperialism and colonial feudalism had certain important economic results. It greatly slowed down industrial and economic development in general in the country. The maintenance and, in some cases, the strengthening of agrarian feudalism meant that the standards of living of the overwhelming majority of the population of the colonial countries remained extremely low. Their income was only a fraction of that enjoyed by the peoples of the big industrial countries. In consequence, the domestic market for new industries was naturally very restricted and because of the maintenance of agrarian feudalism, the possibilities of improvement were very slender. Further, so long as agrarian feudalism continued to exist it gave the native moneyed elements the possibility of plunder-

31. Radhakamal Mukerji - Land problems of India - p. 16.

32. A.B. Keith, Speeches and Documents on Indian Policy - 1750-1921. Vol. I - p. 215-16.

33. A.R. Desai - Social background of Indian Nationalism - p. 35.

34. Report of the Famine Commission of 1892.

ing the millions engaged in agriculture and loan capital in particular brought in usurious rates of interest. So long as conditions were favourable for this kind of usury, native owners of capital had very little interest in founding industrial undertakings to which there was always a certain amount of risk attached, and whose rates of profit were not so high as the usurious rates of interest on loans. It is very interesting to note that when certain English writers sought to explain away the backwardness of industrial development in India, they always pointed out how difficult it was to interest native owners of capital in the idea of founding industrial undertakings.³⁵ In this connection, they invariably omitted to mention the real connections between the usurious rates of interest obtained on loans by native moneyed elements, thanks to the maintenance of agrarian feudalism, and their unwillingness to take risks and accept a lower return on their capital by investing in industry.

In a period in which capitalism in Europe was tremendously developing the productive forces, economic and political forces conspired to slow down capitalist development and even sought to stop it altogether in colonial countries. Whilst capitalism was still a progressive force in Europe, it made its appearance in the colonial countries as parasitic imperialism. Yet this process contained within itself the following rejuvenating forces. The commercialisation of village agriculture together with the decay of village industries due to the influx of manufactured and, later, cheap machine-made goods of Britain and subsequently of other countries and even of Indian industries seriously affected the balanced village economy. The village slowly but steadily became transformed from a self-governing community into an administrative unit of the centralised state and a dependant economic part of the total economy of the country. The progressive role and historical importance lay in the fact that it made village economy a part of the unified Indian economic stream.

Historically it was a necessary step towards the economic integration of the Indian people. Conditions of material existence determined the nature of consciousness and this new process helped to elevate the consciousness of the Indian people to a national plane which paved the way for a national economy and nation-wide co-operation among the Indian people. 'After the elevation of Indian agriculture, its problems assumed a national character, because agriculture in a particular centre produces not only for that centre but for the entire country and even for the world market. The state of agriculture and the condition of agriculturists affected the state of industry and the economic position of the non-agricultural classes also'.³⁶ Various sections who pressed on the British government to introduce drastic reforms in the sphere of agriculture, felt inspired by a national sentiment since the pressure was exerted on a foreign government. Therefore, the problems of agriculture served as focal points for the mobilisation of the people and its different sections on a national scale.

5. The decline of handicrafts and village artisan industries.

The victory of Plassey in 1757 sounded the deathknell of Indian handicraft industries. Between 1757 and 1857, East India Company eliminated a number of states and drained enormous wealth from India. This 'plunder' provided a sizable part of the necessary capital (primitive accumulation) for the Industrial Revolution in England. In the words of Brooks Adams, 'Plassey was fought in 1757 and probably nothing has ever equalled the rapidity of the change which followed'. In 1760, the Flying Shuttle appeared, followed by Hargreave's Spinning Jenny (1764), Crompton's

35. "There is a scarcity of capital for industrial purposes in India and this is partly due to competition from other forms of investment. The main body of Indian investors still prefer to invest in real property, ornaments and jewellery, moneylending, trade and government securities rather than in industry in which many serious losses have been incurred". G.E. Hubbard, *Eastern Industrialisation and its effect on the West*, London, 1935 - p. 257.

36. A.R. Desai - *Social Background of Indian Nationalism*.

Mule (1785) and, chief of all, Watt's steam engine. 'Though these machines served as outlets for the accelerating movements of the time, they did not cause that acceleration. In themselves, inventions are passive, many of the most important ones having lain dormant for centuries waiting for a sufficient store of force to have accumulated to set them working. That store must always take the shape of money not hoarded, but in motion. Before the influx of Indian treasure and the expansion of credit which followed, no force sufficient for this purpose existed; and had Watt lived fifty years earlier, he and his invention must have perished together. Possibly since the world began, no invention has ever yielded the profit reaped from the Indian plunder, because for nearly fifty years Great Britain stood without a competitor. From 1694 to Plassey (1757) the growth has been relatively slow. Between 1760 and 1815, the growth was very rapid and prodigious'.³⁷

This Industrial Revolution created a powerful industrial and manufacturing class in England which soon scored a political victory over trading capital in Britain. This was a blow to the export of India because the government of the industrial class in England prevented India through various measures from flooding the English market. In the words of Horace Wilson, 'The history of the trade of cotton clothes with India is..... a melancholy instance of the wrong done to India by the country on which she had become dependent..... Had no such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped at their outset and could scarcely have been again set in motion even by the power of steam. They were created by the sacrifice of the Indian manufacture. Had India been independent, she would have retaliated..... This act of self-defence was not permitted for her. She was at the mercy of the stranger. British goods were forced upon her without paying any duty and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom she could not have contended on equal terms'.³⁸ Major Basu, in his well known work 'Ruin of Indian Trade and Industries', gives a detailed table of the heavy duties imposed on different goods imported into England from India.

By 1813, industrial classes had acquired political power in England with the result that the charter of 1813 destroyed the monopoly of trade of the East India Company and opened India for 'free trade' to all merchants of England. This new class of merchants unlike their predecessors did not come to India to buy goods produced in India. They came to secure a market for the goods produced in the mills of England and raw materials from India to supply those mills. From 1814 onwards the government of the company in India, as the political instrument of the industrial classes of England, adopted measures which would facilitate the import and sale of British manufactures and export of Indian raw materials.

The decline of handicraft was nearly complete by 1880. Since no indigenous industries took the place of the ruined handicrafts, the mass of handicraftsmen had no new industrial means of livelihood. The result was that the majority took to land and only a fraction was absorbed in industries which began to grow after 1850. It was at this stage that capitalism became openly predatory in the country. The competition of colonial goods was forcibly eliminated. British capitalism eliminated the competition of the feudal industries in India by tariffs amounting to, in some cases, even to 1000 per cent ad valorem. In addition industries in India were forcibly killed, in some cases by questionable methods. Free trade was adopted in India and the railway alignment and the railway rates policy did the rest of the work of killing other industries.

Indian exports of calicos, muslins and other cotton goods fell from Rs 9,172,431 in 1840-'41 to as low a figure as Rs 76,086 in the year 1850-'51. The export of silk goods declined from £ 441,761 in 1850 to £ 158,224 in 1858. Sugar exports declined from £ 1,925,602 to £ 1,175,711 in the same period. Exports of raw

37. Brooks Adams - The Laws of Civilisation and Decay - p. 263-4.

38. Horace Wilson - quoted by James Mill - in his History of British India - p. 385.

materials and food stuffs, on the contrary, showed a considerable increase. The decline of cotton goods in 1849 amounted to £ 2,222,089. By 1857, they had risen to £ 4,941,343. Imports of cotton twist and yarn also increased. From 1857 to 1872, Indian exports formed by manufactured goods declined from 11 to 3.3 per cent and the raw materials exported increased from 34 to 61.4 per cent. During 1840-1872 period, there took place a steady decline of Indian industries resulting in throwing tens of thousands of persons out of employment. From 1872 to 1921, a period covering nearly fifty years, the process of decline in industries became very rapid because it was in this period that the main railway arteries had begun functioning. Foreign manufactures could go far into the interior and destroy through market competition native handicrafts and other industries. 'The railways and steamships have made it possible for European power manufactures to offer the Indian farmers much better terms than Indian village craftsmen could give. Self-sufficing local economy has been displaced by international specialisation and trade much to the discomfiture of the Indian craftsman'.³⁹

The pre-capitalist artisan industries declined mainly due to the unequal struggle against modern machine-based industries. The historical strength of the machine industries lay in the fact that its products were cheaper than those of handicrafts. In a society based on exchange of products, only those forms of production were selected in the economic struggle which satisfied human wants with minimum labour. In a society based on the market, cheaper products always prevailed and ousted the dear ones. The introduction of capitalist landrelations and new land laws was not sufficient to break up the economic autarchy of the village. The undermining of the village artisan industries was also necessary to deal a serious blow to the self-sufficient village. The undermining of the self-sufficient village which was an obstacle to the growth of national consciousness and the development of common national life, was however, a healthy development.

During this period, the increase in the agricultural population of India was greater than the increase in the total population. From 1891 to 1921, a period of thirty years, comparable figures are available. From 1891 to 1901, a fresh territory with a population of about 24 millions had been included in the census figures. From 1891 to 1921, the total population of India increased by about 28.8 millions. In the same period, agricultural population increased by 55.3 millions which showed that agriculture has absorbed a net population of about 24 millions as well as the whole of the natural increase in the total population.

In England, the new mechanised industries absorbed, in course of time, the population displaced from its old calling, and though this did not abolish unemployment, it at least in part alleviated the distress. In India, new mechanised industries were introduced only after a very long period and their growth was far too small to provide employment to the crores displaced from their old occupations. While in England there was thus an increasing industrialisation and urbanisation of the population, in India there was increasing ruralisation. The predatory character of British capitalism ceased by about the middle of the last century. From that time the competitive forces could be depended upon for capturing the Indian market. The capitalist principles of free trade, freedom of contract and competition could now safely work in favour of British capitalism. This process made India a colonial agrarian appendage of Britain.

The destruction of pre-capitalist urban handicrafts and village artisan industry, however, paved the way for the transformation of India into a single economic whole. It unified the entire people within the web of a system of exchange relations, thus contributing the material basis for the economic integration of the Indian peoples into a nation. The historical importance of this transformation lay in the fact that the problems confronting the new classes transcended a mere town or village and became really national in scope. The self-sufficient village was an obstacle to the growth of national consciousness and the development of common national life.

39. D.H. Buchanan, *The Development of Capitalist Enterprise in India* - p. 130.

The destruction of its self-sufficient character and almost isolated existence was objectively necessary for transforming India into a single economic unit and the Indian people into a nation composed of classes existing on a national scale. Historically this process paved the way for a common and higher social, economic, political and cultural existence. Karl Marx commented, 'sickening as it must be to human feeling to witness those myriads of industries, patriarchal and inoffensive social organisations disorganised and dissolved into their units, thrown into the sea of woes and their individual members loosing at the same time..... their hereditary means of subsistence, we must not forget that these idyllic village communities..... had always been the solid foundation of oriental despotism, that they restrained the human mind with the smallest possible compass making it the unresisting tool of superstition, enslaving it beneath traditional rule, depriving of all grandeur and historical energies'.⁴⁰

6. Rise and development of means of transport and modern industries.

The establishment of railways in India during the middle of the nineteenth century created a condition for the growth of modern industries in India. In absolute figures India came to have more railways than England herself, and this at a time when the building of railways in England had more or less ended. By 1890, England had built approximately 17000 miles of railways in India or just about the length of the English railway system. But from 1890 to 1911, the Indian railway network was nearly doubled and there were about 33,000 miles of railways. India did not have to wait till she could pay for them herself, because at this time England began to export capital on a big scale. It was not Indian capital accumulation which financed the building of India's railways but English capital. To this extent, therefore, the export of capital to the Indian colony accelerated economic development.

The construction of railways gave wider scope for the investment of British capital in other industries and also created a market for the products of the growing engineering industry of Britain; Indian raw material products and industries, in turn, found a sure and steady market abroad. Regarding the role of railways, Karl Marx wrote: 'When you have once introduced machinery into the locomotion of a country which possesses iron and coal, you are unable to withhold it from its fabrication. You cannot maintain a network of railways over an immense country without introducing all those industrial processes necessary to meet the immediate and current wants of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with the railways. The railway system will, therefore, become in India truly the forerunner of modern industry'.⁴¹

The technique of transport was limited by the existing level of economic development of the country. The weak economy of the self-sufficient village system in India had perpetuated a feeble transport system which hindered the development of that economy. There was little specialisation among the village communities and hence little movement of either goods or persons. In pre-British India, therefore, no large-scale economic and social life could develop among the people. The construction of roads and railways and the establishment of postal and telegraph systems were primarily meant to serve the economic, political and military interests of Britain which lent a colonial character to the Indian transport system. However, it played a progressive role in helping to weld India into a single economic unit linked with the world market. By creating the conditions necessary for specialisation, the railways and roads revolutionised production and trade, enabled the establishment of large-scale modern industries and led to the development of great ports and industrial centres. It was at this time that the advance of the art of navigation opened the seas of the world to India and for India, which developed trade routes along and about the Western and Eastern seaboard of the country.

40. Karl Marx - Articles On India, People's Publishing House, Bombay - p. 20-21.

41. Karl Marx - Articles On India, People's Publishing House, Bombay - p. 62.

These changes in environment operated selectively to develop certain characteristics among the inhabitants of the country and there were several reasons why the improvement of communications fostered the businesslike type of personality in the country. When the market became wide the man with a capacity to expand his business got a chance to expand it. Further, it fostered the division of labour for 'the division of labour is limited by the extent of the market'. The improvement in communications also meant that a higher proportion of transactions took place between people who did not meet each other face to face. Facility of transport depersonalised economic relations and thereby made innovation easier, and fostered individualism. The contact through trade of peoples of different faiths and customs promoted the questioning and rational review of present practices which seemed inevitable or sacrosanct. Changes of occupation, enforced as well as voluntary, became more frequent, and men had to be less traditional, more adaptable. Some districts that had special advantages for trade, or special natural resources, now developed a thriving activity, which drew the men of enterprise into it from far and wide and formed of them a society which reinforced the particular traits of personality, especially the business virtues of foresight, system, trustworthiness and discipline. The development of communications and the profits which soon amassed in the hands of the businesslike trading class made the birth of independent Indian industries possible. Soon the class of industrial bourgeoisie came into existence which helped to create a national economy, the material framework of the Indian nation.

Between 1850 and 1855 the first cotton mill, a few jute mills and some coal mines were started. In 1879, there were 56 cotton mills in India. The number of jute mills, mainly owned by Europeans, rose to 20 in 1882. In 1880, 56 coal mines were working in the country.⁴² Between 1890 and 1914, new industries like that of petroleum, manganese, mica and saltpetre, came into existence.

Engineering and railway workshops, iron and brass foundries also grew rapidly.⁴³ Coal mining developed fast during this period due to the extension of communications and the expansion of the mill industry and by 1914, those employed in this industry alone were 151,376 workers. D.H. Buchanan describes the industrial expansion between 1890 and 1914 thus: 'The growth from 1890 until the world war was fairly steady in all fields. Cotton spindles more than doubled, cotton power-looms quadrupled, the jute looms increased four and a half times and coal raisings six times'.⁴⁴ Yet the total investment in India as a result of the development of capitalism stood at a very low figure even in 1920. It worked out at the rate of not more than £ 8 per head compared to the per capita investment in England of about £ 300. In 1933, the Associated Chambers of Commerce in India estimated British capital holdings alone at about £ 1000 million, fully one quarter of the total of British capital investment overseas. The annual tribute drawn from India to Britain in one form or another was estimated by Sha and Khambata in 'The Wealth and Taxable Capacity of India' at £ 150 million. This calculation was based on the year 1921-'22 and was more than the total of the Indian budget of that year. This showed that the industrial development in India through foreign capital investment was more in the nature of imperialist penetration of her economy than natural economic development.

In spite of the insufficient and unbalanced industrialisation of India, it played almost a revolutionary role. It led to the consolidation of the unified national economy. Industrialisation made Indian economy more unified, cohesive and organic. It was true that the industrial development of India had been insufficient and lop-sided due to a number of reasons. Still it played a significant role in the evolution of modern India. The growth of modern industrial cities, which became the centres of intense economic, social and political life, led to the emergence of the bourgeoisie and the proletariat, the two social classes whose specific weight in the movement of contemporary society was decisive.

42. A.R. Desai, *Social background of Indian Nationalism* - p. 92.

43. D.R. Gadgil - *Industrial Revolution of India* - p. 118.

44. D.H. Buchanan - *Development of Capitalist Enterprise in India* - p. 139.

7. The growth of modern education and the rise of new social classes in India.

The process of modern English education must be understood along with and in the context of the liquidation of the commercial class and the creation of a new landowning class. The ruling authority knew that a substitute class had to be raised and groomed by a highly selective process of breeding. Said Macaulay: 'We must at present do our best to form a class who may be interpreters between us and the millions whom we govern, a class of persons Indian in blood and colour but English in tastes, in opinions, morals and intellect'.⁴⁵ Both English education and 'land-mindedness' were imparted after the liquidation of indigenous trade and commerce and the cottage industries. The new land settlement and the frustration of the commercial capital went together to form the social incentive of English education on the part of Indians. Industrial capital soon developed among this new class and it fortified and expanded its domain. Between 1850 and 1855, a noticeable change was occurring in the attitude of the new middle class. They started reading Adam Smith, Ricardo, John Stuart Mill, Burke, Milton, Comte, Kant and Hegel and soon their mind outgrew the system which fostered it. The demand was raised for better government as well as European institutions.

The primary significance of this positively privileged acquisition class was to be found in two directions. Members of this class were typical entrepreneurs such as merchants, ship-owners, industrial and agricultural pioneers, bankers and financiers. Two other types who belonged to this class were members of the 'liberal' professions with a privileged position by virtue of their abilities or training and highly skilled workers commanding a monopolistic position. This class soon acquired the management of productive enterprises and turned to ensure the security of its economic position by exercising influence on the economic policy of political bodies and other groups. When practical problems arose, spokesmen of this class came out to analyse their character and operation.

The emergence of the new social classes was the direct consequence of the establishment of a new social economy and administrative machinery. As Marx wrote in 1853, 'The Zemindari and Ryotwari systems were both of them agrarian revolutions effected by British 'ukases' and opposed to each other; the one aristocratic, the other democratic; the one a caricature of the English landlordism, both combining the most contradictory character, both made not for the people who cultivate the soil, not for the holders who own it but for the government that taxes it'.⁴⁶ Such a role of imperialism was more or less determined and necessitated by developments in the metropolitan country as much as those in the colony itself. Imperialism was torn by violent conflicts by this time. To the antagonism between the imperialist powers themselves was added the antagonism between each imperialist power and the colonial and the backward peoples subject to its rule. Imperialism also created economic problems in the colony which it was unable to solve. It was unwilling to reform the land system because its rule typically depended upon the support of the colonial landlord class. The interests of (especially) monopolistically organised producers in the metropolis prevented the erection of colonial protective tariff barriers and in other ways inhibited the growth of industrialisation in the country. The inevitable consequence was that the colonial economy stagnated and all classes of the colonial populations with the exception of the landlords and a few relatively small groups which were in effect agents of imperialist rule, were, therefore, thrown into the struggle for national independence. A new educated middle class appeared on the scene which found in the British bourgeoisie its overshadowing competitor and obstacle to advance. It was destined to become the first articulate expression and leadership of the Indian national bourgeoisie. Nationalism was the expression of the aspiration of the rising middle class for economic unity and cultural freedom. Early Indian economists like Dadabhai Naoroji, Mahadev Gorind Ranade, Gopal Krishna Gokhale, and Romesh Chandra Dutt were the representatives of the new middle class.

45. Macaulay - Minutes on Education.

46. Karl Marx - quoted by Ralph Fox, Colonial Policy of British Imperialism - p. 18.

The economists of the past are sometimes treated as men who have put forward and persevered in, theories in the light of reason, appear erroneous and even ridiculous today. Under certain historic circumstances, it appears that the class interest of a certain group is in harmony with the general welfare of a nation or people concerned. This is true when the services rendered by that class are essential to the welfare of the particular society as a whole and are scarce relatively to the needs. The utility of the services of a class and the scarcity of those services are a general measure of the values of these class services and economic theory appears to emerge out of a generalised pattern of the dominant values of such services. A social class earns its distinction by its contribution to the next stage of social development.

Theories are built upon facts; in other words, economic doctrine is conditioned by facts. The problems which offer themselves to scientific economics originate in the economic life and must be understood in their historical causation and meaning. Any scientific evaluation of economic reality and economic doctrine is possible only if we concentrate on a fixed point in time; but here we shall not lose sight of the fact that everything is in a state of flux and however short a period may be, the form and essence of life are at its end different from what they were at its beginning. Another fact to remember is that factors which were present sporadically in a certain period receive a new importance in the later periods. The question is to understand how the shift of emphasis happened and to recognise the effects of the shift upon the economy of the country. In the light of these ideas, we shall try to interpret every single theory put forward by Dadabhai Naoroji, Ranade, Gokhale and Dutt in the past as an expression and reflection of contemporary conditions and thus to understand it in its historical causation and meaning.

Chapter 2

Dadabhai Naoroji

Dadabhai Naoroji was born on September 4, 1825 in Bombay. He became a partner in the first Indian commercial firm established in England. He was a philosopher-trader who was concerned more with the prestige and welfare of his country than with profits. He was sent to England by his firm for business purposes; but soon he was drawn into politics. He started his campaign in England educating the British on their responsibilities in India. During the closing years of Queen Victoria's reign, he became a member of the British Parliament as a Gladstonian and an ardent advocate of Home Rule for India. He was twice elected as President of the Indian National Congress. He died in 1917.

1. The first to see all realities of national economy and all ideas concerning national welfare in their essential and systematic connection was Dadabhai Naoroji, the Grand Old Man of India, as people loved to call him. He noticed the rising contradictions which were rooted in the social and economic, no less than in the political conditions of India under imperialist rule. The system of doctrines worked out by Dadabhai was characterised by a certain boldness of conception and a great logical consistency. Taken in detail, the constituent elements of the system were neither novel nor revolutionary nor did he at any time claim to have discovered previously hidden facts or to have invented recondite formulations of facts already known; but the system as a whole had an air of originality and initiative such as was rarely met with among like treatises that dealt with any phase of Indian culture. How much of this distinctive character of Dadabhai's system owed to the personal traits of its creator was not easy to say; but it differed characteristically from all systems of theory that had preceded it, both in its premises and its aims.

Neither as regards his postulates and preconceptions nor as regards the aim of his inquiry did his position come of a single line of antecedents. He was of no single school of philosophy, nor were his ideals those of any single group of thinkers living before his time. For this reason he took his place as an originator of a school of thought as well as the leader of a movement looking to a practical end.

As to the motives which drove him and the aspirations which guided him, in destructive criticism and creative speculation alike, he was primarily a theoretician busied with the analysis of economic phenomena and their organisation into a consistent and faithful system of scientific knowledge. He was at the same time consistently and tenaciously alert to the bearing which each step in the progress of his theoretical work had upon propaganda. His work had, therefore, an air of bias, such as belongs an advocate's argument, but it was not, therefore, to be assumed, nor indeed to be credited, that his propagandist aims had in any substantial way deflected his inquiry or his speculations from the faithful pursuit of scientific truth. His scholastic bias might colour his polemics but his logical grasp was too neat and firm to admit of any bias other than that of his patriotism.

2. Political concentration of British administration resulted in money and wealth becoming elements of political power in a way very different from old. Bodin's dictum '*Pecunia nervus rei publicae*' (money is the nerve of the commonwealth) was in many respects true in India. In as much as the state which had been constitutional in the feudal sense became absolute, a mercenary army replaced the feudal militia; and the centralisation of the administration established a salaried officialdom where feudal methods of self-government had prevailed. The result was that military and civil concerns, taxation and the process of State-credit, tended more and more to be carried on upon a monetary basis instead of by payments in kind of a natural economy, so that the monetary powers of the country acquired a political significance that was altogether novel. Trade and the money behind trade were thrust into limelight as sources of wealth and political power. This influx of

money played a great part in undermining the foundations of the old natural economy, for it favoured the diffusion of the means of credit and promoted the development of a capitalist economy.

The expansion of commerce and its ever deeper penetration into feudal society had by now brought about changes that were destined to have far-reaching consequences. 'The development of commerce and merchant capital' writes Marx, 'brings forth everywhere the tendency towards production of exchange values, increases its volume, multiplies and monopolises it, develops money into world money. Commerce therefore has everywhere more or less of a dissolving influence on the producing organisations, which it finds at hand and whose different forms are mainly carried on with a view to immediate use. To what extent it brings about a dissolution of the old mode of production depends on its solidity and internal articulation'.¹ New conflicts and divisions, consequences of money and commerce, broke down the old societies. As one writer, speaking of England, has said: 'Not only did the productivity of labour remain very low in the manorial economy owing both to methods in use and the lack of incentive to labour, but the yield of land remained so meagre as to lead some authorities to suggest an actual tendency for the system of cultivation to result in exhaustion of the soil'.² This was more true of India during the last fifty years of British regime than of Europe. The peasant did nothing to enrich the land which the medieval cropping system exhausted. The growing needs of the British created landed gentry for money and the new exactions coincided with productive stagnation. 'As the forces of production change', Marx says, 'they are restricted and come into conflict with the social relations within which they are developing'. The foreign bureaucracy in India with the help of the new middle class which was meant really as a buffer class tried to hold back the new rising class; the class that was rising to power came into conflict with this class that held power. The hampering of the development of the exploited became apparent in more open clashes of class forces. It was this crucial conflict that provided the background for Dadabhai's economic ideas.

3. Forces Leading to the 'Drain Theory':

The London Indian Society, which Dadabhai started in collaboration with W.C. Bonnerjee with the object of bringing Englishmen and Indians together and exchanging views on subjects connected with India, carried on useful propaganda for more than fifty years until the year 1907. Another organisation (The East India Association) more broad-based than the London Indian Society was inaugurated on December 1, 1886 in collaboration with a committee of retired English officers. Independent and disinterested advocacy of the interests of India and the promotion by all legitimate means of her welfare were its object. At the very first meeting on May 2, 1867, Dadabhai read a paper on 'England's duties to India'. On Nov. 25, 1867, Dadabhai came forward with yet another paper on 'The expenses of the Abyssinian War' demanding that India should not be saddled with any portion of the cost of wars fought in the interests of the British Empire. On June 11, 1867, General Sir Arthur Cotton read a paper on 'Irrigation and Water Transit in India'. The unprecedented succession of drought and famine was then filling India with distress and discontent. The authorities seemed to favour the construction of railways more than canals as a remedial measure. In a minute which Dadabhai left behind and which was placed before the Association's meeting held on December 8, 1868, he gave a historic survey of the devastating famines with which the population was periodically affected. At a meeting of the Association (October 29, 1869) a paper on the question of means of transport in India was discussed. The Government had then decided to construct railways in future by raising loans instead of by giving concessions to private enterprise and guaranteeing payment of interest on their stock. Dadabhai pointed out that under the system of giving Companies a guarantee, all the losses arising from waste fell upon the state while the profit mostly went to the guaranteed companies.

1. Marx, Capital, Vol. III - p. 390.

2. Maurice Dobb, Studies in the Development of Capitalism - p. 43.

During the seventies of the nineteenth century the main topic of discussion in the Association was Indian Finance. Within six weeks between June 15 and July 28, 1870, no less than four papers dealing with the subject in all its bearings were read and discussed at great length; one on 'Indian Finance' by I.T. Prichard; another on 'Public Works in India' by Sir Bartle Frere; another on 'Wants and Means of India' by Dadabhai and a fourth on the 'Finance of India' by Sir Charles Trevelyan. Other papers discussed were 'The Progressive Capabilities of the Races of India in Reference to Political and Industrial Development' by Hyde Clarke, 'What the true interests of Manchester really are in India' by Dr George Birdwood and on 'Trusteeship as the basis of Imperial policy' by Major Evans Bill. All these papers had a direct bearing on the impoverishment of India. Dadabhai's contributions could be grouped under the following heads:

4. National Income.

Being a summary and an appraisal rather than an analytical entity national income demanded statistical measurement. Official information on the subject at the time we speak of was inadequate and misleading. Blue books were compiled without the least idea of providing the information required. The source of non-official information were practically dry. The universities of India had not yet popularised the study of political economy and the books on the subject were a novelty in the country. In the year 1870, the only journal in India which gave statistics concerning the agricultural, mineral and other sources of national wealth, was the 'Indian Economist' edited by Robert Knight. This did not give the information one wanted; not only was the information lacking but there were also handicaps in the approach to the sources of information. The Government of India, for instance, refused Dadabhai access to a note prepared so late as 1881 by Sir David Barbour upon which the then Finance Minister (Lord Cromer) had based his statement of the extreme poverty of the mass of the people.³

A return was made every year called 'Material and Moral Progress of India' which was very imperfect and misleading. Dadabhai said that nothing short of a return every year of the average annual income per head of the population of British India and of the absolute necessities of life for a healthy labourer in detailed calculation could give any correct idea of progress or otherwise of the material condition of the people of British India.

Estimates of total income were employed then as now in ascertaining the proportions in which it was or might be divided among different classes, between the community and the individual, between consumption and capital accumulation and the like. Per capita income figures appeared to measure the nation's economic welfare. A continuous series of annual estimates of total or per capita income would reflect also the constancy of the income flow, an important criterion of economic welfare, and if the series were long enough, Dadabhai evidently thought, it would suggest whether the nation tended to grow richer or poorer and how rapidly the change was taking place. Hence he insisted on providing such returns every year. 'Let there be a return in detail, correctly calculated, made every year of the total annual income of all British India, per head of the population, and of the requirements of a labourer to live in working health and not as a starved beast of burden. Unless such complete and accurate information is given every year in detail, it is idle and useless to make mere unsound assertions that India is prospering'.⁴

As far back as 1870, Dadabhai had subjected the evidence he collected to a minute analysis, and had come to the startling conclusion that the yearly income per head of the population was only 40 s., roughly equivalent to Rs 20. Such a preliminary analysis of the economic situation formed the subject matter of a paper on 'Wants and Means of India', which he read before the East India Association on July 27,

3. Dadabhai, Presidential Address, 9th Congress, Lahore, 1893, Dadabhai's "Speeches and Writings", Natesan & Co - p. 37.

4. Dadabhai, Presidential Address, 10th Congress, Lahore, 1893.

1870.⁵ In the year 1876, Dadabhai read a paper on 'Poverty of India' before the Bombay Branch of the East India Association which was published two years later in a pamphlet form in London.⁶ This paper was only a prelude to the bulky volume published in 1901 under the well-known title 'Poverty and unBritish rule in India'. In this paper he produced additional facts and figures for his statement that India was sinking more and more in poverty. Statistics were the backbone of this paper and he made it perfectly clear that with imperfect material at command he could give only approximate results.

Dadabhai's estimate was based on official figures relating to the years 1867-'70. He explained the principles he followed in these words: 'I have taken the largest one or two kinds of produce of a province to represent all its produce. I have taken the whole cultivated area of each district, the produce per acre, and the price of the produce; and simple multiplication and addition will give you both the quantity and value of total produce. From it also you can get the correct average of produce per acre and of prices for the whole province as in this way you have all the necessary elements taken into account'.⁷ Calculating on this basis, Dadabhai arrived at the figure⁸ of £ 277,000,000 as the value of gross agricultural produce. From this he deducted six percent for seed, bearing a balance of £ 260,000,000. The value of salt, opium, coal and profits of commerce was taken to be £ 17,000,000 and the value of manufactures was computed to be at £ 15,000,000. An equal amount was estimated for the annual produce of stock, fish, milk and meat, etc. To this amount Dadabhai added a further sum of £ 30,000,000 for any contingency. All these items together amounted to £ 340,000,000 and taking the population at £ 170,000,000, the per capita income for British India came to 40 s or Rs 20 per head. He clearly established that the value of the production of one of the best provinces in India (Bombay) was only Rs 20 per head per annum and that confirmed his previous conviction that 40 s was a liberal estimate of the total production per head of the population. He then proceeded to examine 'the bare wants of a human being to keep him in ordinary good health and decency'⁹ in the light of estimates of the necessities of life, for emigrant coolies, for Indian emigrants carried to British and foreign colonies, for common agricultural labourers in various parts of the Bombay Presidency, for the lowest paid servants in the government service and for prisoners in Indian jails. This was less than Rs 34 or so which was required for bare subsistence and he came to the conclusion: 'Even for such food and clothing as a criminal obtains, there is hardly enough production, even in a good season, leaving alone all little luxuries, all social and religious wants, all expenses on occasions of joy and sorrow, and any provision for a bad season. Moreover, it must be borne in mind that every poor labourer does not get the full share of the average production. The high and the middle classes get a much larger share, the poor classes much less while the lowest of living is generally above the average share. Such appears to be the condition of the masses of India. They do not get enough to provide 'the bare necessities of life'.¹⁰ The conclusion was that as the balance of income every year available for the use of the people of India did not suffice for the wants of the year, the capital wealth of the country was being drawn upon, and the country went on becoming poorer and poorer and more and more weakened in its capacities of production'.

5. R.P. Masani, Dadabhai, Grand Old Man of India - p. 120.

6. This interesting footnote appears in the paper: "These notes in their original draft were placed before the select committee on Indian Finance in 1873, they were taken, but not published with the report, as they did not suit the views of the Chairman (Mr Ayrton), and I was led to suppose, also of Sir Grand Duff, who was then the Under-Secretary of State for India". (Dadabhai Naoroji, Poverty and unBritish rule in India - p. 1).

7. Dadabhai, Poverty and unBritish rule in India - p. 4.

8. See the summary of his calculations, Poverty and unBritish rule in India - p. 23.

9. Dadabhai, Poverty and unBritish rule in India - p. 25.

10. Dadabhai, Poverty and unBritish rule in India - p. 31.

5. Criticism of Dadabhai's National Income estimate.

Mr F.C. Danvers, an India office expert, pointed out the flaws in Dadabhai's calculations. He took exception to the principle adopted by Dadabhai of equally apportioning the value of agricultural produce and manufactures among the whole population without distinguishing how many were agriculturists, how many were mechanics, how many belonged to other trades or professions or possessed property and whose incomes, therefore, were not derived directly from agriculture or manufactures. 'Thus he omits all reference', the critic pointed out, 'to railway wealth, government stock, house property, profits of trade, salaries, pensions, non-agricultural wages, professional incomes and returns to investments and all other sources from which a man who does not grow food himself may obtain the means of purchasing it'.¹¹

Dadabhai made a spirited reply to this argument. In his memorandum, Mr Danvers had pointed out that Dadabhai's calculations made no allowance for straw. Dadabhai replied that he had not only omitted straw, but 'also grass, cotton seed and any fodder or other food for animals', on the ground that it would make no difference to the ultimate result. The principle Dadabhai enunciated was best explained in his own words. 'First either the whole gross annual production of the country may be taken (including straw, grass etc.) and from this gross production, before apportioning it per head of human population a deduction should be made for the portion required for all the stock; or second, all straw, grass and every production raised for animal food should be left out of the calculation and only the rest of the production which is and can be turned to human use should be apportioned among the human population..... It would not be correct to include the produce raised for animal use and then not to make the necessary deduction for such use'.¹² As a matter of fact, Dadabhai's figures of the value of the agricultural produce were as good an estimate as one could possibly get in those days. Dr V.K.R.V. Rao, in a brilliant analysis of Dadabhai's estimates, remarked, 'The official figure, thus corrected by us would be Rs 286 crores. But it must further be remembered that the output of agricultural crops would be higher in 1878 than in 1871 as the area under cultivation had increased in the meantime and even if we deduct Rs 10 crores as value of the increase in output during this period (which represents a rise in output of a little less than 3 percent in 10 years which is not unreasonable) we will get Rs 276 crores as the finally corrected official figure of the value of agricultural produce of British India in 1867-68 and Dr Naoroji's figure is 277 crores. It seems to me that it is a most remarkable tribute to Dr Dadabhai Naoroji as a statistician that his results should be practically identical with those that are based on all the elaborate data which was available for a government commission, and his figure of the value of the agricultural produce may therefore be accepted as an authoritative estimate'.¹³

As regards railway wealth, Dadabhai maintained that 'by the mere fact of the removal of the wheat from Panjab to Bombay not a single grain of wheat, nor a single pie of money is added to what already existed in India before the wheat was touched. Such 'Railway wealth' does not exist'.¹⁴ If the mere movement of produce can add to the existing wealth', he observed facetiously, 'India can become rich in no time. All it would have to do is to go on moving its produce continually all over India, all the year round, and under the magic wheels of the train wealth will go on springing till the land will not suffice to hold it'.¹⁵ Dadabhai however made it perfectly clear that he was not 'discussing here the benefits of railways whatever they are to any country or to India'. His argument was 'railways are, in a way, an indirect

11. J.C. Danvers's papers, "Poverty and unBritish rule in India" - p. 175.

12. Dadabhai, "Poverty and unBritish rule in India" - p. 178-179.

13. Dr V.K.R.V. Rao, An Essay on India's National Income, 1925-'29 - p. 16.

14. Dadabhai, "Poverty and unBritish rule in India" - p. 181.

15. Dadabhai, "Poverty and unBritish rule in India" - p. 181.

Page 5. Repd

means of increasing the material production of any country but that, whatever that 'means' is, its result is fully and completely included in the estimate of the actual annual production of the country, and there is nothing more to be added to such actual material production of the year'.¹⁶

As regards 'Government Stock', Dadabhai contended that it did not 'from itself produce or create or make to grow out any money, food or any kind of material wealth'. Dadabhai argued, 'Suppose I hold a lakh of rupees of Government 4 per cent rupee paper..... it simply means that the Government will give me Rs 4000 every year and that, not by creating anything by any divine power but from the revenue of the country; and this revenue can be got from only the actual material production of the year. So in reality my income of Rs 4000 from Government Stock', is nothing more or less than a share out of the production of the country and is therefore, fully and completely included therein'.¹⁷

Similarly he held 'the house does not grow or create the rent by the mere fact of my occupying it'. Again 'not a single atom of money or wheat is added to the existing wealth of the country by this internal trade; only a different distribution had taken place.....' Here again Dadabhai made it clear that 'he is not discussing here the usefulness of internal trade whatever it is; I am only pointing out that any increase in the material income of the country by the mere transactions of the internal trade is a thing that does not exist and that whatever benefits and profits of trade there are from internal trade, are fully and completely included in the ultimate result of the actual material production of the year'. Regarding foreign trade, Dadabhai quite agreed with Danvers that the foreign trade of a country added to its annual income or production. But the case with India was otherwise. 'The present system of British administration not only sweeps away to England the whole profits of the foreign trade but also drains away a portion of the annual production of the country. So that, instead of India making any addition from its 'profits of foreign trade' to its yearly production, a deduction has to be made from such production in estimating the actual quantity that ultimately remains for the use of the people of India'.¹⁸ Dadabhai even thought that, 'taking the aggregate wealth of the world, foreign trade even adds nothing. It simply then becomes internal trade and is mere change of hands'.¹⁹

'Official salaries and pensions are paid by the Government from revenue and this revenue is derived from the production of the country, and so from that same store are all such salaries and pensions derived', argued Dadabhai. For non-official salaries or pensions the phenomenon was just the same and hence he maintained, 'I pay my clerks or servants either from my profits of trade or the interest of government stock or from the rent of my house property, or from any of the sources which Mr Danvers may suggest, but one and all of these incomes are drawn from the same store - the annual material production of the country. All salaries and pensions are thus fully and completely included in the estimate of the production'.²⁰ Such being the case in the normal circumstances, all salaries and pensions paid to Europeans in England and in India, Dadabhai said, were actually, first, a direct deprivation of the natural provision for similar classes of the people of the country, and, second, a drain from the property and capacity of the country at

16. Dadabhai, Memorandum on Mr Danvers papers of 28th June, 1880 and 4th January, 1879 - included in Dadabhai, "Poverty and unBritish rule in India" - p. 181.

17. Dadabhai, Memorandum on Mr Danvers papers - Dadabhai, "Poverty and unBritish rule in India" - p. 182.

18. Dadabhai, Memorandum on Mr Danvers papers, included in "Poverty and unBritish rule in India" - p. 182.

19. Dadabhai in a note on Foreign Trade, "Poverty and unBritish rule" - p. 182.

20. Dadabhai, Danvers papers, "Poverty and unBritish rule in India" - p. 183.

large. As regards professional incomes Dadabhai held the same view. 'The mere act of consulting professional gentlemen (doctors and lawyers) does not enable me to create money to pay them. In short every labourer - mental or physical - has his share for subsistence through various channels from the only one fountain-head the annual material production of the country. There is no source outside the production (including any addition to it from profits of foreign trade) from which any individual derives his subsistence'.²¹ According to him the increase or decrease every year of the actual material income 'is, in fact, the test of the ultimate and full result of all the above direct and indirect means of the production of a country'. If the material income of the year did not suffice for all the wants of the whole people for the year, Dadabhai held, the existing 'capital' wealth of the country was drawn upon, and so far, the capital and the capacity for annual production were diminished.

Both Mr Danver's criticism and Dadabhai's answer were not wholly free from fault. While Dadabhai insisted on ignoring the fact that income consisted of utility and that services which had a utility value could not be left out of account in computing the national income, the official apologist was confusing the concept of individual with that of the national income, when he counted the income from government stock as an item of national income. Dadabhai was quite properly entitled to omit those items. But it was evident that Dadabhai could not distinguish between bulk and value. Dr V.K.R.V. Rao comments: 'Dr Dadabhai Naoroji's treatment of the income from transport, domestic service, professions and public administration is clearly based on the old physiocratic concept of the materiality of income. In fact, even today there are some economists who take up that point of view. While there is no doubt that calculation of the strictly material part of the national income of a country is useful for many purposes, it is admitted now by the majority of economists that income consists of utility and that material goods are items of wealth only in so far as they furnish utility; therefore, services which contain utility would be quite as much income as material goods that contain utility'.²² Dr Rao adds that 'in omitting the value of services Dr Naoroji seriously impaired the utility of his estimate'. And his conclusion is that Naoroji's estimate of the per capita income was an underestimate of the real position and that 'the per capita income during the year would be more in the region of Rs 23-24 than in that of Rs 20'.

Dadabhai's estimate of the national income was roughly as accurate as it then could have been and the estimate given by Evelyn Baring (Lord Cromer) and Sir David Barbour in the year 1882, namely Rs 27 per head, more or less proved the accuracy of his calculations. Despite the increase in agricultural and industrial output and rise in prices during the subsequent years, Lord Curzon's estimate in 1901 was only Rs 30 and it is no little tribute to his skill that his estimate of the per capita income of Rs 20 stood the test of all subsequent research in that field.

6. Taxation and Financial Administration:

Some facts concerning the financial resources of the country, the machinery of financial administration and the system of financial control in India during those days have to be clearly understood to put the problem in its proper perspective. Under the Government of the Crown, a legislative measure after it had passed the Council in India and had been confirmed by the Viceroy could be vetoed in England. There was an instance in which a budget had been rejected by the Home Government and flashed back to Calcutta to be recast. 'The Indian Chancellor of the Exchequer had to serve two masters, the local Government and the Home Government and he had to prepare a budget which both could relish..... As, however, the Home Government had the last word in the matter, he preferred to follow the menu likely to agree

21. Dadabhai, Memorandum on Danver's papers - Dadabhai's "Poverty and unBritish rule in India" - p. 184-85.

22. Rao, "An Essay on India's National Income" - p. 21-22.

with his masters in England'.²³ Under the Crown, the Auditor and the Accountant had become one. 'Departmental rule has not proved strong enough to protect public interest of India against class interests, such as the army, trade and manufacturers and native prices. Powerful interests were more or less able to use it as an organ for their designs'.²⁴ Under such a system, the financial administration of India could hardly be expected to give satisfaction. During these years, though India enjoyed unprecedented immunity from internal disturbances and external aggression, there were huge deficits necessitating enhanced taxation. The revenue had increased but the expenditure had grown in still greater proportion. Lord Mayo, the Viceroy, had to deplore the fact that from the year 1866 to 1870, the Government of India had been plunged in a chronic state of deficit. Under the inspiration of Dadabhai Naoroji and Naoroji Furdoonji, the Bombay branch of the Indian Association sent a petition to the Secretary of State demanding an enquiry into the Government's finances. As regards principles of design and execution, the problems were: (1) whether the burden of taxation was equally distributed over the shoulders of all classes of people and (2) whether the expenditure was not capable of being largely curtailed without impairing efficiency or strength of British rule. For a solution of these questions, it was necessary, Dadabhai said in a meeting, that a Committee should examine the principle and necessity of each item of receipt and expenditure. In dealing with land revenue, the principles on which the rates of assessment were based should be examined. Were the rates such as to encourage increase of cultivation, to lead to increase in capital and thereby to increase in production and prosperity? 'Was the burden of taxation on the cultivator equitable, compared with the burden borne by other classes? Because the richer interests could resort to agitation and make themselves heard, should the poor labourer and cultivator be squeezed more than these vested interests'?

In his maiden speech in the House of Commons (9th August, 1892) supporting an amendment for a full and independent parliamentary enquiry into the conditions of India, Dadabhai laid bare the severe burden of taxation by a foreign Government. 'Sir George Wingate, with his intimate acquaintance with the condition of the people of India, as the introducer of the Bombay Land Survey System, pointed out, with reference to the economic effects upon the condition of India, that taxes spent in the country from which they were raised were totally different in their effect from taxes raised in one country and spent in another. In the former case, the taxes collected from the population were again returned to the industrial classes; but the case was wholly different when taxes were not spent in the country from which they were raised as they constituted an absolute loss and extinction of the whole amount withdrawn from the taxed country'; and he said further that 'such was the nature of the tribute the British had so long exacted from India - and that with this explanation some faint conception might be formed of the cruel, crushing effect of the tribute upon India - that this tribute weighed in the scales of justice or viewed in the light of the British interests would be found to be at variance with humanity, with common sense and with the received maxim of economic science'.²⁵ In the same speech, Dadabhai quoted other eminent British authorities on India to prove his thesis. 'Mr Fawcett quoted Lord Metcalf (5th May, 1869) that the bane of the British Indian system was that the advantages were reaped by one class and the work was done by another. This havoc was going on increasing up to the present day. Lord Salisbury, in a minute (Ret. c. 3086-1 of 1881), pointed out that the injury was exaggerated in the case of India, where so much of the revenue was exported without a direct equivalent, that as India must be bled, the lancet should be directed to the parts where the blood was congested or at least sufficient, not to the rural districts which were already feeble from the want of blood. This bleeding

23. R.P. Masani, Dadabhai, The Grand Old Man of India - p. 121-122.

24. R.P. Masani, Dadabhai, The Grand Old Man of India - p. 124.

25. Dadabhai Naoroji in his maiden speech in the House of Commons, Dadabhai's Speeches and Writings, Natesan & Co - p. 130.

of India must cease'.²⁶ The Secretary of State for India in 1886, in a letter of the India Office to the Treasury, said, (Ret. c. 4868 of 1886): 'The position of India in relation to taxation and the source of public revenue is very peculiar, not merely from the habits of the people and their aversion to change which is more specially exhibited to new forms of taxation but likewise from the character of the Government which is in the hands of foreigners who hold the principal administrative offices and form so large a part of the army. The impatience of the new taxation which will have to be borne wholly as a consequence of the foreign role imposed on the country and virtually to meet additions to charges arising outside the country would constitute a political danger, the real magnitude of which, it is to be feared, is not at all appreciated by persons who have no knowledge of, or concern in, the Government of India, but which those responsible for that Government have long regarded as the most serious order'.²⁷

Whilst instituting a comparison between the burden of taxation in India and that of England, Dadabhai exposed the official version in the strongest terms. 'Indians were often told by men in authority that India was the lightest taxed country in the world. The United Kingdom paid £ 2-10 s' per head for the purposes of the State. They (Indians) paid only 5 s 6 d per head and therefore the conclusion was drawn that Indians were the most lightly taxed people on earth. But if these gentlemen would only take the trouble of looking a little deeper, they would see how the matter stood. England paid £ 2-10 s per head from an income of something like £ 35 per head and their capacity therefore, to pay £ 2-10 s, was sufficiently large. Then again, this £ 2-10 s returned to them - every farthing of it - in some form or another. The proportion they paid to the state in the shape of revenues was, therefore, something like only 7 or 8 percent'. India paid 5 s 6 d out of their wretched income of £ 2 or 20 rupees as he calculated or 27 rupees as calculated by Lord Cromer. 'The three rupees were far more burdensome compared with the wretched capacity of the people of India to bear the taxation than the £ 2-10 s which England paid. At the rate of production of Rs 20 per head, India paid 14 percent of her income for purposes of revenue nearly twice as heavy as the incidence of the United Kingdom. Even at the rate of production of Rs 27 per head, the Indian burden was 11 percent. Then again take the test of income tax. In the United Kingdom, 1d. in the Income Tax gave some £ 25,00,000; but in India with ten times the population, 1d. only gave about Rs 300,000 with an exemption of only Rs 50 instead of £ 150 as in this country. In the last 100 years, the wealth of England had increased by leaps and bounds; while India, governed by the same Englishmen, was the same poor nation that it was all through the century that had elapsed and India at the present moment was the most extremely poor country in the world and would be poor to the end of the chapter if the present system of foreign domination continued'.²⁸ Analysing the chief sources of revenue in England and India, Dadabhai commented, 'The chief sources of revenue were just what was mainly obtained from the cultivators of the soil. Here in this country (England) the landlords - the wealthiest people - paid from land only 2 or 3 percent of the revenues but in India land was made to contribute something like Rs 27,000,000 of the total revenue or about Rs 67,000,000. Then the salt tax, the most cruel revenue imposed in any civilised country, provided Rs 86,000,000 and opium formed the bulk of the revenue of India, which was drawn from the wretchedness of the people and by poisoning the Chinese. It mattered not what the State received was called - tax, rent, revenue or by any other name they liked - the simple fact of the matter was that out of a certain annual national production the State took a certain portion. Now it would not also matter much about the portion taken by the State if that portion, as in

26. Dadabhai Naoroji in his maiden speech in the House of Commons, Dadabhai's Speeches and Writings, Natesan & Co - p. 130.

27. Quoted by Dadabhai in his maiden speech, House of Commons, Dadabhai's Speeches and Writings, Natesan & Co - p. 131.

28. Dadabhai in his maiden speech, House of Commons, Dadabhai's Speeches and Writings, Natesan & Co - p. 141.

this country (England), returned to the people themselves from whom it was raised. But the misfortune and the evil was that much of this portion did not return to the people and that the whole system of revenue and the economic condition of the people became unnatural and oppressive with danger to the rulers'.²⁹ The Secretary of State for India, speaking on the Indian budget, said in 1894, 'Now as to the revenue, I think the figures are very instructive. Whereas in England the taxation is £ 2 11 s 8 d per head, in Scotland £ 2 8 s 1 d per head and in Ireland £ 1 12 s. 5 d per head, the Budget which I shall present tomorrow will show that the taxation per head in India is something like 2 s 6 d or one-twentieth of taxation in the United Kingdom and one-thirteenth that of Ireland'. He had excluded the land revenue from this calculation which, Dadabhai held, was unfair. He said, 'the land revenue did not rain from heaven. It formed part and parcel of the annual wealth from which the state revenue is taken in a variety of different names - call it tax, rent, excise duty, stamp, income tax and so on. It simply means so much was taken from the annual production for the purposes of Government. The figures taken by the Right Hon'ble Gentleman for the English taxation are also the gross revenue and similarly must this Indian revenue be taken except railway and navigation revenue. That statement, if it means anything, means that the incidence of taxation in India was exceedingly light, compared with the incidence of taxation in England. It was the usual official fiction that the incidence of taxation in India was small as compared with that of this country. But when they considered the incidence of taxation they must consider not simply the amount paid in such taxation, but what it was compared with the capacity of the person who paid it. An elephant might with ease carry a great weight while a quarter ounce of grain or wheat might be sufficient to crush and ant. Taking the capacity of the two countries, the annual product or income of England was admitted to be something like £ 35 per head. If there was a taxation of £ 2 10 s as compared with that it was easy to see that the incidence or heaviness was only about 7 percent of the annual wealth. If, on the other hand, they took the production of India at the high official estimate of Rs 27 per head - though he maintained that it was only Rs 20 - even then the percentage or incidence of taxation was about 10 or 11 percent, or at 20 rupees the incidence was nearly 14 percent i.e. nearly double what it was in England. To say, therefore, that India was lightly taxed was altogether a fiction. The fact was, that the pressure of taxation in India, according to its means of paying, was nearly double that of wealthy England, far more oppressive, as exacted from poverty'.³⁰ 'It must be further realised what this disproportionate pressure upon a most prosperous and wealthy community like that of England and the most wretched and poverty and famine stricken people of India means. To the one it is a flee bite, to the other it is starvation and death of millions under her present unnatural treatment'.³¹ Mr Fawcett corroborated Dadabhai completely when he said in his paper 'Nineteenth Century' in October 1879, 'if a comparison is made between the financial resources of England and India, it would be found almost impossible to convey an adequate idea of the poverty of the latter country and consequently it is found that taxation in India has reached almost its extreme limits'. The upshot of the whole argument was that the capacity to bear the tax burden was not to be measured by the percentage of taxation but by the abundance or otherwise of the income to pay it from.

On July 1, 1900, speaking at the United Methodist Free Church (at the Indian famine relief fund meeting) Dadabhai brought out the great difference between taxing the people and what he called bleeding the people. Said he, 'you in England pay something like fifty shillings or more of taxes per head per annum. We in India pay only three to four shillings per head per annum. From this you may conclude

29. Dadabhai's maiden speech, House of Commons, Dadabhai's Speeches and Writings, Natesan & Co - p. 142.

30. Dadabhai - House of Commons speech on amendment to the address - 12-2-1895, Dadabhai's Speeches and Writings, Natesan & Co - p. 157.

31. Dadabhai, "Poverty and unBritish rule in India" - p. 222.

that we must be the most lightly taxed people in the world. That is not the case however. Our burden is nearly twice as heavy as yours. The taxes you pay in this country (England) go from the hands of the tax payers into the hands of the Government from which they flow back into the country again in various shapes, fertilising trade and returning to the people themselves. There is no diminution of your wealth; your taxes simply change hands. Whatever you give you must get back. Any deficit means so much loss of strength. Suppose you pay a hundred million pounds a year and the Government uses that money in such a way that part only returns to you, the other part going out of the country. In that case, you are being bled, part of your life is going away. Suppose out of 100 million pounds only eighty million pounds return to you in the shape of salaries, commerce and manufactures, you will have lost twenty million pounds. Next year you will be so much the weaker and so on each year. This is the difference between taxing the people and bleeding the people'.³² No wonder that with such a destructive and unnatural system of the administration and management of expenditure, 'the mass of the people, enjoy only a scanty subsistence' (Lord Lawrence in 1864). Sir George Wingate hit the nail right on the head when he said, 'But the case is wholly different when the taxes are not spent in the country from which they are raised. They constitute an absolute loss and the extinction of the whole amount withdrawn from the taxed country might as well be thrown into the sea. Such is the nature of the tribute we have so long exacted from India. From this explanation, some faint conception may be formed of the cruel, crushing effect of the tribute upon India'.³³ Sir Louis Mallet ended his Minute of 3rd February, 1875 on the Indian Land Revenue with words which deserve attention, 'By a perpetual interference with the operations of land which our own rule in India has set in motion and which I think are essential to success - by a constant habit of palliating symptoms instead of grappling with disease - may we not be leaving to those who come after, a task so aggravated by our neglect or timidity that what is difficult for us may be impossible for them'.³⁴

7. The Military Expenditure:

Public finance, especially in India, was one of those subjects which lay on the borderline between economics and politics, leaning more to the latter. There was lavishness in respect of salaries and leave allowances and in the immense gathering of civil and military officers from all parts of India at the hill stations during nearly half the year. The ever-growing military expenditure, which absorbed nearly a third of the gross revenue, was more than the ordinary military expenditure of the great military monarchies of Europe. Even the Comptroller-General of Military Expenditure had remarked that military history presented 'no instance of an army so constituted or one so costly'. The essential fact which Dadabhai stressed was that public expenditure, combined with taxation and other methods of raising public income, caused large diversions of economic resources from the channels, into which they would otherwise have flowed, into channels determined by public policy and might consequently cause large changes in the character and the total volume of production to the detriment of true national interests.

On May 24, 1895, a Royal Commission with Lord Welby as the Chairman was appointed to inquire into the administration and management of the military and civil expenditure incurred under the authority of the Secretary of State for India in Council or of the Government of India and the apportionment of charges between the Governments of the United Kingdom and India for purposes in which both were interested. Dadabhai was a member of the Commission together with Wedderburn and Caine, two great sympathisers of Indian cause. 'From the beginning of the British connection with India up to the present day, India has been made to pay for every possible kind of expenditure for the acquisition and maintenance of British

32. Dadabhai's Speeches and Writings, Natesan & Co - p. 220.

33. Dadabhai's Speeches and Writings, Natesan & Co - p. 296.

34. Dadabhai's Speeches and Writings, Natesan & Co - p. 300.

rule and Britain has never contributed her fair share (except a small portion on few rare occasions such as the Afghan War) for all the great benefits it has always derived from all such expenditure from the revenues of India', said Dadabhai.³⁵ The Welby Commission was required to ascertain whether the present system of administration and management of expenditure in India secured sufficiency and efficiency of services at an economical and affordable cost.

As far back as 1870, Mr Gladstone had admitted that India was 'too much burdened' and in 1893, he said, 'The expenditure of India and especially the military expenditure is alarming'.³⁶ Every war large or small that was carried on beyond the Indian frontiers of 1858, was distinctly and mainly for Britain's Imperial and European purposes. In the House of Lords, Lord Beaconsfield emphasised the objects to be for British Imperial purposes.³⁷ Speaking on the North-Western Frontier wars, Mr Fawcett said in Parliament, 'In India, there was a war for which the Indian people were not responsible - a war which grew out of our own policy and actions in Europe - and we are going to make the Indian people, who were not self-governed and were not represented, pay every six pence of the cost'.³⁸ The upshot of the whole affair was that England contributed £ 5,000,000 out of £ 21,000,000 spent on this war when one would have naturally expected a 'far more solid and substantial' sum from rich England whose interest was double, both Imperial and European. Yet Dadabhai accepted these Frontier wars as far as they might be necessary and would be willing to pay a fair share according to India's means. With reference to all wars outside the frontiers of India and in which India had no interest, Dadabhai maintained that Britain should honestly pay India fully for all the services of men and materials which she had taken away from India. The mutiny of 1857 was one example. The causes of the Mutiny were the mistakes and mismanagement of British authorities. 'But every single man sent out was paid for by India during the whole time, though only temporary use was made of them including the cost of their drilling and training as recruits until they were sent out'.³⁹ Again, 'The whole of the ordinary expenses in the Abyssinian expedition were paid by India', the argument used being that India would have to pay her troops in the ordinary way and she ought not to seek to make a profit out of it. Rs 12, 85, 74, 590 were spent from April 1882 to March 1891 alone beyond 'the West and North-West Frontiers in India after the disastrous expenditure of £ 21,000,000 in the Third Afghan War'.⁴⁰ Dadabhai summarised the position quite correctly when he said, 'The whole army is an integral part of the British army, India being considered and treated as a fine training ground for the British army, at any expense, for 'our boys' and as a point of protection for British Imperial and European position leaving Indians the helotry or the proud privilege of paying for every thing to the last farthing without having the slightest voice in the matter'.⁴¹ The above statement was more or less corroborated by the following pronouncements of British authorities which Dadabhai quoted in his Presidential Address of the Twenty Second Congress which was held at Calcutta in 1906. The Government of India in its despatch of 25th March, 1890 says, 'Millions of money have been spent on increasing the army in India, on armaments and on the fortifications to provide for the security of India, not against domestic enemies or to prevent the invasions of

35. R.P. Masani, Dadabhai Grand Old Man of India - p. 378.

36. Hansard, 30-6-1898, vol. 14, - p. 622.

37. Hansard, 25-2-1880, vol. 250 - p. 1094.

38. Quoted by Dadabhai - Dadabhai's Speeches and Writings - p. 347.

39. Lord Northbrook, House of Lords, 15-5-1893, Debates, vol. XII - p. 874, quoted by Dadabhai.

40. Parl. Ret. 91 of 1895.

41. Dadabhai, Dadabhai's Speeches and Writings, Natesan & Co - p. 353.

the warlike peoples of adjoining countries but to maintain the supremacy of the British power in the East'. It continues, 'It would be much nearer the truth to affirm that the Imperial Government keeps in India and quarters upon the revenues of that country as large a portion of its army as it thinks can possibly be required to maintain its dominion there, that it habitually treats that portion of its army as a reserve force available for Imperial purposes, that it has uniformly detached European regiments from the garrison of India to take part in Imperial wars when it has been found necessary or convenient to do so, and more than this that it has drawn not less freely upon the native army of India towards the maintenance of which it contributes nothing to aid it in contests outside India with which the India Government has had little or no concern'.⁴² Regarding the Navy, Dadabhai argued, 'Apart from a fair share for the vessels stationed in India, why should England ask India to defray any other portion of the cost of the Navy? The very sense of justice had probably prevented any such demand being made. The fame, gain and glory of the Navy was all England's own. There was not a single Indian employed in the Navy. It was said that the Navy was necessary to protect the Indian commerce. There was not a single ship sailing from or to India which belonged to India. The whole of the shipping was British and not only that, but the whole cargo while floating was entirely at the risk of British money. There was not an ounce exported from India on which British money did not lie through Indian Banks. In the same way when goods were exported from England, British money was upon them. The whole floating, shipping and goods were first British risk. Lastly, there is every inch of the British Navy required for the protection of these islands'.⁴³

8. Public Debt:

Dadabhai held that the public debt of India (other than for public works) was not a business debt in any possible way. In his view, it was 'simply a political burden put upon India by force for the very acquisition and maintenance of the British rule. It is entirely owing to the evil administration of expenditure in putting every burden on India'.⁴⁴ The public debt of India (excluding the public works) incurred during the ten years (1886-1896) was £ 16,000,000 of which £ 8,000,000 had interest to be paid in London. The interest paid in London during the ten years was £ 20,600,000. This formed part of the exports of India. The £ 8,000,000 of the debt incurred during the ten years formed part of the imports of India leaving a balance of £ 24,750,000. On public debt account to be further deducted from the last balance of unaccounted loss of Rs 321,640,000 taking £ 24,750,000 at 1s 4d per rupee would give about Rs 33,000,000 which deducted from Rs 321,640,000 would still leave the unaccounted loss or drain Rs 288,640,000. As far as the economic effect on India of the despotic administration and management of expenditure under the British rule was concerned, the whole amount of Rs 321,000,000 was a drain from the wretched resources of India. Dadabhai's main argument was that all the loans made to India formed part of the imports and were paid for and included in that part of exports which was equal to the total imports. 'The foreign capitalists', he added, 'not only make profits with their own capital but they draw even their capital from the taxation of the poor people themselves'.⁴⁵ But, to avoid controversy allowing for all public debt (political and commercial) Dadabhai held that there was still a clear loss or drain of Rs 170,000,000 from the very blood or produce of the country itself and Rs 118,000,000 from the profits of trade'.⁴⁶ Further, freight, insurance and other charges after shipment, were not calculated in the exports from India every farthing of which was taken by England. If these items were added to the exports, the actual loss to India would be much larger than the above calculations.

42. Dadabhai's Speeches and Writings, Natesan & Co - p. 80.

43. Dadabhai in a speech, House of Commons, on the amendment to the address, 12-2-1895, Dadabhai's Speeches and Writings, Natesan & Co - p. 160.

44. Dadabhai in his note on "Administration and Management of Expenditure - its Results", submitted to the Welby Commission on 9th January 1896.

45. Dadabhai, quoted by R.P. Masani, Dadabhai Grand Old Man of India - p. 385.

46. Dadabhai's Speeches and Writings, Natesan & Co - p. 320.

As for the loans made to India for public works, Dadabhai held that if they were left to themselves to enjoy what they produced with reasonable price for British rule, they would not require any such loans with interest to be paid on them which added to the drain on the country. 'These loans were only a fraction of what was taken away from the country. India had lost thousands of millions in principal and was asked to be thankful for the loan of a couple of a hundred millions. The bulk of the British Indian subjects were hewers of wood and drawers of water to the British and foreign capitalists'.⁴⁷ 'By the act of 1881, Sect. (19), without the permission of the Governor-General, no member can introduce any measure (which virtually amounts to exclusion) about matters affecting the public debt or public revenues or for imposing any charge on such revenue or the discipline and maintenance of any part of Her Majesty's military or naval forces. This means that as far as the spending of our money is concerned the Legislative Council is simply as if it did not exist at all'.⁴⁸ By this Act of 1892, section 52, no member had the power to submit or propose any resolution or divide the Council in respect of any such financial discussion. Such was the severity of legal limitations on the Council. According to the same Act, sec. 22, the Secretary of State for India could by an Act of Parliament raise any money in the United Kingdom for the Government of India and thus could pile up any amount of burden on the Indian taxpayer, without his having a word to say upon it. Dadabhai clearly understood the exact nature of the relationship between India and the foreign administration when he said, 'The question of all questions is the poverty of India..... This poverty we attribute to the system and not to the officials who administer that system. The system being unnatural, were the officials the very angels themselves or as many Gladstones, they cannot prevent the evils of the system and cannot do much good'.⁴⁹

9. The Socio-Economic Results of Foreign Civil Services:

Dadabhai's main thesis was that the same disastrous drain which was responsible for the material exhaustion of India was responsible for the moral loss to her of the experience and wisdom acquired by the members of the services in the execution of their duties. In his Address in reply to the speech from the Throne in the House of Commons (February 12, 1895) Dadabhai raised this question emphatically. He said, 'India has to pay for European services in both countries two hundred millions of rupees annually. Hundreds and thousands of millions of money are consumed and carried away in that way and it places a monopoly of everything in the British capital. We cannot compete with it and the result is that you have not only the benefit of the officials receiving that money but under their patronage, of providing British traders, merchants, farmers, shipowners, planters, capitalists and others. You have naturally a monopoly of all that has to be done and the profits are all the profits of the British; we work for the British and for British profits and the Indians are in a way worse off than the Southern slaves, for the reason that those slaves were taken care of and housed and fed by their masters. Further, they did not work on their own property, but the Indians do work on their property and give the profits of their work to the capitalists of European countries'.⁵⁰ It was then generally thought by the English people that when Indians struggled for admission into the services, it was simply to gratify the aspirations of the educated few. In all his papers on the poverty of India and his correspondence with the Secretary of State for India, Dadabhai showed that the sole cause of this extreme poverty and wretchedness of the mass of the people was the employment of foreign agency in the government of the country and the consequent material loss to and drain from the country. 'The fact is that the employment of a native is not only economy, but complete gain to the whole extent of his salary. When a European is employed, he displaces a native whom nature intended to fill the place. The native coming in his

47. Dadabhai, maiden speech in the House of Commons, 9th August, 1892.

48. Dadabhai, in his Presidential Address, Ninth Congress, Lahore, 1893.

49. Dadabhai, in his Presidential Address, Ninth Congress, Lahore, 1893.

50. Dadabhai, in his speech in the House of Commons, 12-2-1895.

place is natural. Every pie he eats is therefore a gain to the country and every pie he saves is so much saved to the country for the use of all its children. Every pie paid to a foreigner is a complete material loss to the country. Every pie paid to a native is a complete material saving to the country. In fact, it is the whole question of the poverty or prosperity of the country'.⁵¹

'Hundreds of millions of rupees were drawn from and taken out of the country for the payment of European officials of all kinds without any material equivalent being received for it. Capital was thus withdrawn and the natives prevented from accumulating it, and under the existing system a large part of the resources and industries of the country was thrown into the hands of British and other capitalists. Out of about 700,000,000 rupees raised annually from the annual production of the country, nearly 200,000,000 rupees were appropriated in pay, pensions and allowances to Europeans in England and in India. This compulsorily obtained benefit to Britain, crippled resources of British Indians, who could never make any capital and must drag on a poverty-stricken life. Hundreds and thousands of millions of wealth passed in principal and interest thereon from India to Britain. Thousands of Europeans found a career and livelihood in India to the exclusion of the children of the soil, who thus lost both their bread and their brains. Not only that, this crippled condition naturally threw nearly all the requirements of India more or less into British hands which, under the patronage and protection of the British officials, monopolised nearly everything. British India belonged, next to officials, more or less to British professionals, traders, capitalists, planters and ship-owners, railway holders and so on, the bulk of Indians having only to serve for poor income or wages that they earned. Indians may die off by millions from want and it was nobody's concern'.⁵² In the same speech he added, 'If it was not for the necessity of maintaining British rule there should be no need to drain India in the manner in which it was now drained by the crushing European services'. Dadabhai showed that it was simply the employment of a foreign agency that caused a large drain in the country, disabling it from saving any capital at all and forcing it to resort to loans for its wants. He explained at length the process and effect of this fundamental evil and how even what was called the 'development' of the resources of India was actually thereby turned into the result of the 'deprivation' of the resources of India.

To sum up, these and other errors have had the effect of inflicting upon India the triple evil of depriving the people of wealth, work and wisdom and making Indians unemployed and extremely poor. Dadabhai put his case in the words of Anglo-Indian and English statesmen alone. He quoted Sir John Shore as saying even as far back as 1787, 'Whatever allowance we may make for the increased industry of the subjects owing to the enhanced demand for the produce of it, (supposing the demand is to be enhanced), there is reason to conclude that the benefits are more than counter-balanced by evils inseparable from the system of a remote foreign dominion'.⁵³ In 1790, Lord Cornwallis had said in a Minute that the heavy drain of wealth by the Company with the addition of remittances of private fortunes was severely felt in the languor thrown upon the cultivation and commerce of the country. Dadabhai took strong objection to the high salaries paid to the foreign civil servants. He said, 'The Viceroy surely could get his bread and butter with £ 20,000 a year instead of £ 25,000. The Governors could surely have bread and cheese for Rs 6,000 or £ 3,000 instead of £ 10,000 and so on down till the end of the salary list was reached at Rs 200 a month. This would afford a much needed relief because India could not really afford to pay'.⁵⁴ The whole

51. Dadabhai, in his speech on "The Simultaneous Examinations in England and India", at the first Congress, Bombay, 1885.

52. Dadabhai, in his speech, House of Commons on 12-2-1895.

53. Ret. 377 of 1812.

54. Dadabhai, in his maiden speech in the House of Commons, 9th August 1892.

misfortune at the bottom which made the people of British India the poorest in the world was the pressure to pay, roughly speaking, 200,000,000 rupees annually for European foreign servants. Dadabhai maintained that this was destructive to India and suicidal to the British. He summarised the position thus: 'Europeans occupy almost all higher places in every department of Government directly or indirectly under its control. While in India, they acquire India's money, experience and wisdom; and when they go, they carry both away with them leaving India so much poorer in material and moral wealth. Thus India is left without and cannot have those elders in wisdom and experience who in every country are the natural guides of the rising generations in their national and social conduct and of the destinies of their country; and a sad, sad loss this is!..... There may be very few social institutions started by Europeans in which natives, however fit and desirous to join, are not deliberately and insultingly excluded. The Europeans are and make themselves strangers in every way'.⁵⁵ In a prophetic strain he warned, 'He who runs may see that if the present material and moral destruction of India continues, a great convulsion must inevitably arise by which either India will be more and more crushed under the iron heel of despotism and destruction or may succeed in shattering the destroying hand and power'.⁵⁶ He was all for 'Swadeshi' in conditions of India, though by belief he was a free trader. Said he, 'I am a free trader, I am a member and in the Executive Committee of the Gobden Club for 20 years and yet I say that 'Swadeshi' is a forced necessity for India in its unnatural economic muddle. As long as the economic condition remains unnatural and impoverishing and the necessity of supplying every year some Rs 200,000,000 for the salary, pensions, etc. of the children of a foreign country at the expense and the impoverishment of the children of India, to talk of applying economic law to the condition of India is adding insult to injury'.⁵⁷ Comparing the effects of British rule with other foreign conquests before, Dadabhai remarked, 'It is a strange condemnation that after half a century or more of such effort they have not yet prepared a sufficient number of men fit for the services of their own country... we are made B.A.'s and M.A.'s and M.D.'s, with the strange result that we are not yet considered fit to teach our country men. In the case of former conquests the invaders either retired with their plunder and booty or became the rulers of the country. When they only plundered and went back, they made no doubt great wounds; but India with her industry revived and healed the wounds. When the invaders became the rulers of the country, they settled down in it, and whatever was the condition of their rule, according to the character of the Sovereign of the day, there was at least no material or moral drain on the country. Whatever the country produced remained in the country; whatever wisdom and experience was acquired in her services remained among her own people. With the English the case is peculiar. These are the first wounds of the first war in the burden of the public debt and those wounds are perpetually open and widening by draining away the life-blood in a continuous stream. The former rulers were like butchers hacking here and there, but the English with their scientific scalpel, cut to the very heart, and yet lo there is no wound to be seen and soon the plaster of the high talk of civilisation, progress and what not covers up the wounds! The English rulers stand sentinel at the front door of India challenging the whole world that they do and shall protect India against all comers and themselves carry away by back door the very treasures they stand sentinel to protect'.⁵⁸ Comment is hardly necessary. Even Karl Marx or Lenin would have found it impossible to improve upon this characterisation of the exploitation that was implicit in the foreign rule in India.

10. Foreign Trade:

The industrial revolution in Europe and the acquisition of colonial markets in the East expanded the foreign trade of Western Europe. It was inevitable that

55. Dadabhai, "Poverty and unBritish rule in India" - p. 203-204.

56: Dadabhai, "Poverty and unBritish rule in India" - p: 205.

57. Dadabhai, in his Presidential Address, Twentysecond Congress, Calcutta, 1906.

58. Dadabhai, "Poverty and unBritish rule in India" - p. 211-212.

merchants, statesmen and even philosophers in the affected countries should turn their attention to the behaviour of labour, commodities and markets. Since Adam Smith had administered the 'Coup de grace' to mercantilism, there was a consequent neglect of money and prices. The evolution of what was henceforth known as the classical theory of international trade (of Mill, Marshall and later Taussig) seems to have influenced Dadabhai's analysis of trade between England and India. Evidently he believed, like his master, that (1) labour and all other productive factors are mobile within a country and immobile among nations; (2) domestic price relationships are based on the cost of labour embodied in each unit, and (3) the balance of payments consists only of trade items. The last and most important one was Dadabhai's thesis regarding the destructive nature of the trade between the colony and the imperial country.

It was a usual practice those days to quote figures by interested parties to prove what they called 'increase of trade', 'balance of trade in favour of India', 'increase of industry', 'hoarding of treasure in British India'. Dadabhai criticised such people in severe terms. 'These people with bias and prejudices and prepossessions and apparently having not very clear ideas of the principles, processes and details of commercial and banking operations and transactions and of the perturbations of what Sir John Shore called, 'evils of a distant foreign domination', are not able to understand and read aright these facts and figures of the commercial and economic conditions of British India'.

In a memorandum submitted to the Welby Commission (9th January 1896) Dadabhai analysed India's trade with England and brought out clearly the fallacy contained in the official version. In the official estimate, totals were taken of both imports and exports together and any increase in these totals was pointed out as proof of flourishing trade and increasing benefit. In reality it was no such thing but quite the reverse altogether. Dadabhai explained the position thus: 'Suppose a merchant sends out goods to a foreign country which have cost him £ 1,000. He naturally expects to get back £ 1,000 and some profit, say 15 %, i.e. he expects to receive back £ 1,150. This will be allright, and suppose he sends out more, say £ 2,000 worth the next year and gets back his £ 2,300, then it is really an increasing and profitable trade. But suppose a merchant sent out goods worth £ 1,000 and gets back £ 800 instead of £ 1,150 or anything above £ 1,000; and again the second year he sent goods worth £ 2,000 and got back £ 1,600. To say such trade is a flourishing or profitable trade is simply absurd. To say that because the total of the exports and imports of the first year was £ 1,800 and the total of the exports and imports in the second year was £ 3,600, that therefore, it was a cause for rejoicing, when in reality it is simply a straight way to bankruptcy with a loss of £ 200 in the first year and £ 400 in the second year (leaving alone profits) and so on. Such is the condition of British India. Instead of getting back its exports with some profit it does not get back even equal to the exports themselves but a great deal less every year'.⁵⁹ Let us see what the amount is (c.p. 036, 1898, P 277). 'Taking the last five years as an illustration, the total net exports for 1892-3 - 1896-7 are Rs 1,314,600,000. Total exports for the same period are Rs 5,688,000,000; taking 10 percent profits thereon, will be Rs 568,800,000. Therefore the total excess of net exports, plus profits, would be Rs 1,883,400,000. Then, again the so-called 'loans' from this country are included in imports, the net exports must be increased to that extent. The addition to commercial debt in this country after 1891-2 to 1896-7 is £ 6,470,000. (c. 9036, 1898, P 130), or say, £ 6,500,000, which, at the average rate of exchange of the same years (P 131), about 15s 2d per rupee or nearly Rs 17 per £ 1, is equal to Rs 110,500,000. So that the total net exports (excluding loans from imports) and profits will be Rs 1,883,400,000 plus Rs 110,500,000 equal to Rs 1,993,900,000 or about roundly Rs 2,000,000,000. During the five years the average per year will be about Rs 400,000,000. Now to call this a 'balance of trade in favour of India' is the

59. Dadabhai's memorandum to Welby Commission, Dadabhai's writings and speeches, Natesan & Co - P. 314-315.

grossest abuse of language. It is neither any 'trade' nor 'balance of trade'. It is simply and solely the remittances of the official bleeding and the exploitation of the non-official capitalists. Not a pie of this tremendous amount Rs 400,000,000 a year will India ever see back as its own: while in true balance of trade the whole of this amount should go back to India as its own'.⁶⁰ 'Why then, it may be asked, does India not go into bankruptcy as any merchant would inevitably go? And the reason is very simple. The ordinary merchant has no power to put his hand in other person's pockets and make up his losses. But the despotic Government of India on the one hand goes on inflicting on India unceasing losses and drain by its unnatural administration and management of expenditure and on the other hand, has the power of putting its hands unhindered into the pockets of the poor taxpayer and make its account square'.⁶¹ In this connection, Dadabhai compared the results of the administration of expenditure in India with those of the other parts of the British Empire.

Ten years (1883-1892)

| Countries | Imports including gold and silver | Exports including gold and silver | Excess of imports over exports | % of trade profits |
|--|-----------------------------------|-----------------------------------|--------------------------------|--------------------|
| | £ | £ | £ | |
| U.K. (Par. Ret. C. 7, 143) | 4,247,954,247 | 3,203,603,264 | 1,044,351,001 | 32 |
| Australia | 643,462,379 | 582,264,839 | 61,197,540 | 10.5 ⁺ |
| North American Colonies | 254,963,473 | 205,063,294 | 49,900,179 | 24.4 |
| Straits Settlements (Par. Ret. C. 7144 of 1893) | 204,613,643 | 181,781,667 | 22,831,976 | 12.5 |

⁺ 'Australia is a large gold and silver exporting country. Profits on this are very small percentages. The profits on other produce or merchandise will be larger than 10.5 percent and it should also be borne in mind that Australia like India is a borrowing country and a portion of its exports, like that of India, goes for the payment on foreign loans. Still it not only pays all that interest from the profits of trade but secures for itself also a balance of 10.5 percent profits while India must not only lose all its profits of trade but also Rs 170,000,000 of its own produce. Were India not bleeding politically it would also be in a similar condition of paying for its loans and securing something for itself out of the trade profits'.⁶²

60. Dadabhai, Statement submitted to the Indian Currency Committee of 1898, "Poverty and unBritish rule in India" - p. 569.

61. Dadabhai's memorandum to the Welby Commission, Dadabhai's Speeches and Writings, Natesan & Co - p. 314-315.

62. Dadabhai's Speeches and Writings, Natesan & Co - p. 317.

Dadabhai then calculated the particulars of the trade of India and the loss of the people of British India as follows:

Ten years (1883-1892) Ret. (C 7193) 1893

| | | |
|---|------------------|--|
| India's total exports including treasure. | Rs 944,279,318 | |
| | Rs 188,855,863 | Add: as in other countries, 20 % excess of imports on profits (U.K. is 32 %) |
| | Rs 1,133,135,181 | or the amount which the imports should be. But |
| | Rs 744,099,510 | only are the actual imports. |
| | Rs 359,035,671 | is the loss of India for which it has not received back a single farthing either in merchandise or treasure. |

'Now the question is what has become of this Rs 350 millions. This amount includes the payment of interest on railway and other public works loans. Owing to our impoverishment, our utter helplessness, subjection to a despotism without any voice in the administration of our expenditure, our inability to make any capital, and therefore, forced to submit to be exploited by foreign capital every farthing of the above amount is a loss and a drain to British India. We have no choice; the whole position is compulsory on us'.⁶³ In connection with this trade test, Dadabhai remarked, 'Taking India's profits to be only 10 % instead of 32 %, like those of the United Kingdom and after making all deductions for remittances for interest on public works loans, India has received back Rs 170,00,000 worth of imports less than what she exported annually. On the average of 10 years (1883-1892) their exports every year with compound interest would amount to enormous sums lost by her. Could any country in the world, England not excepted, stand such drain without destruction?'.⁶⁴

Regarding the opium trade which Dadabhai condemned in severe terms, the position was peculiar. Even by sentiment Dadabhai was opposed to the opium trade. That was shown by the fact that when he joined a mercantile firm in 1885 one of his conditions was that the firm should have nothing whatever to do with opium. While in England opium and all its preparations were treated as poison; at the other end of the world Christian and highly civilised England was forcing a 'heathen' and 'barbarous' power to take this poison. 'Why', asked Dadabhai, 'because India cannot fill up the remorseless drain; so China must be dragged in to make up even though it be by being 'poisoned'. It is wonderful how England reconciles this to her conscience. This opium trade is a sin on England's head and a curse on India for her share in being the instrument. This may sound strange as coming from any native of India as it is generally represented as if that it was India that benefited from the opium trade. The fact simply is that as Mr Duff said, India is nearly ground down to dust and the opium trade of China fills up England's drain. India derives not a particle of benefit. All India's profits of trade and several millions from her very produce (scanty as it is and becoming more and more so) and with these all the profit of opium go the same way of the drain to England. Only India shares the curse of the Chinese race. Had this cursed opium trade not existed, India's miseries would have much sooner come to the surface and relief and redress would have come to her long ago; but this trade has prolonged the agonies of India'.⁶⁵

63. Dadabhai in his memorandum to the Welby Commission, Dadabhai's Speeches and Writings - p. 320.

64. Dadabhai's maiden speech, House of Commons, Dadabhai's Speeches and Writings, Natesan & Co - p. 133.

65. Dadabhai in a speech on "India and the Opium Question", Monday, October 15, 1886, Westminster.

In conclusion, Dadabhai argued that if a natural system was allowed to prevail, both India and the United Kingdom, aided by perfect free trade, would produce results equally beneficial to both. Such a future he visualised because, 'here is an inexhaustible market of 221,000,000 of their own civilised citizens with some 66,000,000 more of the people of the native states and what a great trade would arise with such an enormous market and the United Kingdom would not for a long time hear anything about her unemployed'. If India was prosperous, he argued, England would be prosperous ten times more than she was at present by reason of the trade she could carry on with India. His argument was, 'England at present exported some £ 300,000,000 worth of British produce; yet to India she hardly exported produce to the value of 2 s 6 d per head. If India were prosperous enough to buy even £ 1 worth per head of English goods she would be able to send to India as much as she now sent to the whole world.'⁶⁶ Dadabhai saw through the class character of British Indian trade when he said, 'It is only some people of the U.K. of the higher classes that at present draw all the benefit from India. The great mass of the people do not derive that benefit from the connection with India which they ought to get with benefit to both countries'.⁶⁷ To prove his thesis, he quoted Macaulay as saying, 'To trade with civilised man is infinitely more profitable than to govern savages; that would indeed be a dotting wisdom which in order that India might remain a dependency, would make it a useless and costly dependency which would keep a hundred millions (now nearly 221,000 000) of men from being our customers in order that they might continue to be our slaves'.⁶⁸ In any case, Dadabhai was quite sure that 'as long as the economic condition remains unnatural and impoverishing the talk of applying economic laws to the condition of India is adding insult to injury'.⁶⁹

11. The 'Drain Theory':

Through a scientific analysis of the burden of taxation, foreign trade and also the economics of the foreign Civil Service in India, Dadabhai introduced his theory of foreign exploitation which has hence forth come to be known as the famous 'Drain theory'. 'Whatever revenue is raised by other countries, for instance, the £ 70,000,000 by England, the whole of it returns back to the people and remains in the country; and therefore the national capital, upon which the production of the country depends, does not suffer diminution while, on account of India being subject to a foreign rule, out of £ 50,000,000 of revenue raised every year, some £ 20,000,000 or more are carried away to England and the national capital - or in other words its capability of production - is continually diminished year after year'.⁷⁰ 'The best test of this drain is (1) that portion of produce exported out of British India for which nothing whatever has returned to her in any shape either of merchandise or treasure. (2) The profits of her whole exports which she never got. (3) That portion of the exports which belonged to the native states and which the native states got back with their due profits are included in the total imports and are, therefore, not included in the 'net exports'. For number (1) Dadabhai had the following authoritative figures for 45 years (1849-50 to 1894-95; Statistical Abstract of British India: No 30, 1895, P 299). 'This table shows, said Dadabhai, 'That British India sent out or exported her produce to the extent of £ 526,740,000 for which she has not received back a single farthing's worth of any kind of material return. Besides the loss or drain of actual produce, there is (No 2) the further drain of the profits on an export of £ 2,851,000,000 which taken only at 10 % will be another £ 285,000,000 - which British India has not received - subject to the deduction of portion of (No 3), viz., the profits of the native states. To this has to be added the profits which

66. Dadabhai, maiden speech, House of Commons, 9th August, 1892.

67. Dadabhai, Presidential Address, Ninth Congress, Lahore, 1893.

68. Macaulay as quoted by Dadabhai, in his Presidential Address, Ninth Congress, Lahore 1893.

69. Dadabhai as quoted by R.P. Masani in his "Dadabhai Grand Old Man of India" - p. 502.

70. Dadabhai as quoted by R.P. Masani in his "Dadabhai Grand Old Man of India" - p. 129.

Indian foreigners (i.e. the capitalists of native states) make in British India and carry away to their own states, freight and marine insurance premiums have to be taken into account for, whether for exports from or imports into India, these items are always paid in England. In ordinary circumstances one may not complain if a foreigner came and made his profits on a fair and equal footing..... The unrighteous and despotic system of government prevents British India from enjoying its own produce or resources and renders it capital-less and helpless. Then foreign capitalists come in and complete the disaster. The enormous resources of India are all at the disposal and command of these foreigners'.⁷¹ 'It must be borne in mind', Dadabhai proceeded, 'that all the loans made to India form a part of the imports and are already paid for and included in that portion of the exports which is equal to the total imports, the 'net exports' in the table being after allowing for all imports including loans. Otherwise, if these loans were deduced from the imports, the 'net exports' will be so much larger. Not only do the foreign capitalists exploit and make profits with their own capital, but they draw even their capital from the taxation of the poor people themselves'.⁷² This fact was corroborated by the words of Sir James Westland, reported in the London Times of 18th December 1896, as follows: 'Sir James then explained how closely connected the Money Market of India was with the Government balances, almost all the available capital employed in commerce practically being in those balances..... A crore and a half which under normal conditions would have been in Headquarters in Calcutta or Bombay had been placed at the disposal of the mercantile community for trading purposes'.⁷³ The poor Indian tax-payers must not only find money for an unrighteous system of government expenditure but must also supply capital to exploit their own resources. Declared Dadabhai, 'From England's own grasp there is no security of property at all and as a consequence no security for life. What is secure and well secure is England and does so with perfect security to carry away from India and to eat up in India her property at the present rate of some £ 30,000,000 or £ 40,000,000 a year. The reality, therefore, is that the policy of English rule, as it is, is an everlasting, unceasing every-day increasing foreign invasion, utterly though gradually destroying the country'.⁷⁴ In a public speech on 'The Cause and Cure of Famine' at Freechurch, Croydon (31-4-1901), Dadabhai drew the attention of the audience to a review by Mr Montgomery Martin of a survey of the country from 1807 to 1816. It is interesting to note what he says in this review. 'It is impossible to avoid remarking two facts as peculiarly striking, first, the richness of the country surveyed and second, the poverty of its inhabitants'. And he continues, 'The annual drain of three millions on British India has amounted in 30 years at 12 percent (the usual Indian rate) compound interest to the enormous sum of 723 millions. So constant and accumulating a drain even in England would soon impoverish her. How severe then must be its effect on India where the wages of a labourer are from two pence to three pence a day'.⁷⁵ It must be noted that the drain which at the beginning of the nineteenth century when Mr Martin wrote was only three millions, amounted to 30 millions a year towards the end of the same century. With this may be added the cost of the India Office building of about half a million; of the Royal Engineering College of £ 134,000 and of such other buildings which all cost India. The India Office establishment of about £ 2,300,000 a year was all imposed on India. 'Even an ocean if it lost some water every day which never returned to it would be dried up in time. Under similar conditions, wealthy England even would be soon reduced to poverty', commented Dadabhai.

71. Dadabhai, "Causes of Discontent", submitted to Welby Commission, 31st January, 1897.

72. Dadabhai, in his memorandum on "The Causes of Discontent" submitted to the Welby Commission, 31st January, 1897.

73. As quoted by Dadabhai in his memorandum on "The Causes of Discontent" submitted to the Welby Commission, 31st January, 1897.

74. Dadabhai as quoted by R.P. Masani, in his "Dadabhai Grand Old Man of India" - p. 208.

75. As quoted by Dadabhai, "Dadabhai's Speeches and Writings" - p. 238.

To sum up, the inevitable consequence of a foreign rule everywhere was persistent transfer of wealth from the country of the people to that of their rulers. In the case of India, the extravagance of the authorities and the widespread utilisation of a foreign and costly Civil Service to the exclusion of the natives intensified the drain. A very large portion of her revenue was carried away annually to England depleting the national capital. This huge 'Drain', as Dadabhai named it, had the effect of inflicting upon India the triple evil of depriving the people of wealth, work and wisdom and making them, in the ultimate result, 'extremely poor' and 'unemployed' (their services, which are their property, being plundered from them).

12. Estimate.

Dadabhai Naoroji's career was not very different from that of the English classical economists. He was a social philosopher as the classical economists were. He was fully engaged in politics and had a considerable influence on the 'national' policy and his theories and their interpretation carried the mark of the political struggle in which they were conceived. As it was a comparatively settled period in Indian history, economic relations and political and legal institutions were generally taken for granted; but as Indian national resistance was brewing, the whole basis of the foreign administrative organisation was challenged and to that extent the connection between economic relations and ideas was clearly revealed.

If we were to summarise the distinguishing characteristics of the economic analysis contained in Dadabhai's writings, we should have to put first the insight which it revealed into the economic mechanism of his own time. With extreme vigour his analysis tried to lay bare the principles which underlay the working of the imperialist system and the foreign rule, together with the historical development which produced it. He showed to subsequent Indian economists the need for a unified principle of explanation of economic phenomena contained in the foreign rule. He gave a complete picture of the economic process which contained the essence of reality. Even though parts of the picture had to be redrawn by later economists like Ranade and Gokhale, the pattern remained.

It seems that Dadabhai's chief contribution to economic ideas which grew in India at this time was his neatly rounded and bold notion that it was material production and material production alone which in the end determined wealth and value. 'The whole foundation of all administration, financial and general, and of the actual condition of the people', he declared, 'rests upon this one fact - the produce of the country, the ultimate result of all capital, labour and land'.⁷⁶ According to him, wealth primarily consisted of the aggregate of the goods annually produced. This was a purely mechanical, quasi-arithmetical concept which paid no heed to the organic composition of wealth. Dadabhai reckoned as wealth nothing but material goods, nothing but concrete objects, although services, capacities, forms of organisation and mental achievements came within the same category.

Comparing Dadabhai's views with Quesnay's or with that of the classical school, we derive a picture of the structure of economic life very different from that given in the 'Tableau economique' and the classical writings. If the essential feature of the 'Tableau' was its demonstration of an economic circulation and its insistence upon the interconnection of economic processes, the Classical school was essentially concerned with the laws of the formation of value and those of the turn-over of commodities in the market which formed the core of economic theory of the time. Dadabhai went further than his Western masters and attempted to understand all economic processes from the most important feature - actual achievements. For him economic life consisted of the actual achievements of the means used to attain certain ends. Dadabhai ignored utility, use value and concentrated on material production and forces of production. He declared, '..... There is no royal (even railway) road to material wealth. It must be produced from the materials of the earth till the great discovery is made of converting motion into matter'.⁷⁷

76. Dadabhai, "Poverty and unBritish rule in India" - p. 4.

77. Dadabhai, "Poverty and unBritish rule in India" - p. 181.

In its simplest form, his concept of material production depicted an agricultural community, self-sufficient, and having only a rudimentary system of exchange. In this setting it was natural to look upon production as the main source of wealth. This explained also Dadabhai's concept of value and it was the starting point of his analysis. Thus he tried to show that behind the veil of money and complex relations of trade and industry, the essential nature of economic life remained the same; that it consisted in the physical process in which commodities were annually produced and consumed. From this he derived his basic criterion of economic policy. As he says, 'This production during the year will have to meet all the wants of the next year. If this production proves less than what would be wanted for the next year, then there would be a deficiency and either the original wealth or capital of the country will have to be drawn upon or the people will be so much less supplied with their wants in some shape or other; in either way showing a diminution of prosperity both as property and capacity. If, on the other hand, the whole material production of the year prove more than what would be necessary for the next year for all ordinary or usual wants, then a surplus would accrue, and so far, in some permanent form, add to the capital of the country and increase its prosperity'.⁷⁸ This could be best characterised as some kind of a welfare analysis at the physical level since it implicitly assumed that the quantities of satisfaction of given wants were roughly proportional to quantities of physical products and concentrated on the problem of increasing the quantity and the physical productivity of resources as the most important means of increasing economic welfare. Dadabhai measured wealth by the annual per capita consumption and stressed that wealth increased when productive power of labour, land and capital were increased. He preferred to distinguish wealth as the stock of goods from money income and insisted on the size of the real national product as the criterion of welfare.

His calculation of the national income data has been especially useful in giving a correct sense of proportion about the structure of the economy, entirely apart from any attempt at prediction. The amount and proportion of the nation's output that was going into foreign hands through taxation and drain and hence was not available for immediate use by consumers, was indicated for the first time by Dadabhai's calculations. These estimates gave rough impression of changes that has occurred in that proportion over decades. Further, Dadabhai showed that fiscal policies could be tested by cashing them in terms of this national income analysis and this technique was a great advance in the analysis of government finance at that time. The national income data were the common mode of expressing the size of the economic role that the government played in the economy: the ratio of taxes to national income or of government expenditures to net or gross national product. Since changes in per capita national income, as distinguished from anyone of its constituent items, were a partial indicator of changes in the national welfare of the group of persons making up the nation, it might be supposed that one of the most prominent uses made of the national income figures by Dadabhai was the drawing of inferences regarding the advance or decline in the material welfare over a period of years. He clearly held that the national income statistics provided a wide view of the country's entire economy as well as the various groups in the population who participated as producers and income receivers; and that, if available over a substantial period, they would reveal clearly the basic changes in the country's economy in the past and suggest, if not fully reveal, the trends for the future.

National income estimates or accounts measured the total net product of a country's economy and therefore, they must be based not only on a clear and unambiguous understanding of the concepts employed but also on an empirical data of at least a minimum order of reliability. For Dadabhai, as we have seen, adequate empirical data were not always available on significant sections of Indian economy and concepts were, therefore, not always clear or uniform. Difficulties in the way of a satisfactory estimation and analysis of national income were indeed great. A consider-

78. Dadabhai, "Poverty and unBritish rule in India" - p. 179.

able portion of output did not come into the market at all, being either consumed by the producers themselves or bartered for other commodities and services. The problem of imputation of value thus arose and took on significantly large proportions in some sectors of the economy. In view of the difficulties in measurability that this resulted in, it became necessary for Dadabhai to include in his estimates of income a classification of monetary and non-monetary sectors which one would not find in national income estimates of other countries. The problem of measurability was further complicated by the fact of the illiteracy of the majority of the population and the semi-subsistence character of their economic activity. Unlike advanced countries, individuals and enterprises in India were not active economic agents by virtue of their participation in economic activity. An element of guess-work, therefore inevitably entered into the assessment of output, especially in the large sectors of economy which were dominated by the small producer or the household enterprise. Apart from these conceptual difficulties relating to national income work, there was the much larger problem of the non-availability of statistical data for the estimation of an all-correct estimation of national income. Regional diversities in India, with its size and varied history, were large, and therefore, inadequacy of data could not easily be overcome by extending data for one part of the country to the rest of the country. In spite of these difficulties, it should be said to the credit of Dadabhai that his estimate of the national income was as accurate as it then could have been. He pointed out, however, that the relative dearth of material both statistical and analytical in the national income field in the country was part of the vicious circle characteristic of an underdeveloped and colonial economy, poverty and foreign drain leading to the perpetuation of poverty. If there was to be economic development, efforts to carry it through, he emphasised, must be made simultaneously both at the level of material production and the strict checking of the foreign drain through trade and the employment of a foreign service in the country.

So long as economics was studied in terms greater or less of aggregate wealth, there was naturally an endeavour to seek for a standard for measuring 'social cost' and 'social return' and to use the difference, if any, between the two as an index of a country's prosperity, and in this Dadabhai, along with Adam Smith and Karl Marx, belonged to the intellectual offspring of physiocracy. Adam Smith approached this question of national income armed with the labour theory of value. In his 'Wealth of Nations' says Smith, 'The annual labour of the nation is the fund which originally supplies it with all the necessaries and conveniences of life'.⁷⁹ Marxist economic theory taking the labour theory of value as its foundation says that a nation's income could only be what it produced leaving aside surplus value from capital invested abroad. Marxist terminology with regard to the problem of national income introduced the total or social net product, understood as the whole of material goods produced within a year. National income accordingly became the sum of new values created in a given year as a result of productive work expended during the year. The concept of total product and national income in Marxist doctrine referred only to the sphere of material production. Work which was direct harnessing of goods of nature was, in Marxist terminology, productive work and work which did not consist in it whether necessary or not, but reflected only the relations of man to the community, was not productive work. This division into productive and non-productive work has nothing to do with the division into useful and useless work, that is, work useful socially and work socially useless. 'Productive workers create a material basis for maintenance, that is, for the existence of non-productive workers' declared Marx. We find the same idea running through all the writings of Dadabhai on the subject. For example, Dadabhai declares, 'All salaries and pensions, one and all of these incomes are drawn from the same store - the annual material production of the country'.⁸⁰ Regarding professional incomes Dadabhai held, 'Every labourer, mental or physical has his share for subsistence through the various channels from the only one fountain-head

79. Adam Smith, *Wealth of Nations*, chapter I, Book I.

80. Dadabhai, "Poverty and unBritish rule in India" - p. 1.

- the annual material production of the country'. This division between productive and non-productive work - an indispensable element in Dadabhai's theory of the creation of national income - was surprisingly similar to the Marxian theory of the creation of national income and value.

An important question arose - the question of classification, which must decide what was and what was not a branch of the material production. In Dadabhai's classification, there were a number of clear and uncontroversial points. It was clear that industry and agriculture were a branch of material production. It was clear, too, that defence, security, administration, health services, schools, culture and art could not be included among branches of material production. But there existed a number of other functions which dominated in trade, especially functions which resulted from the task of transforming commodity value to money values. The performance of these functions required naturally a great outlay of work which, however, was non-productive. As an example of this Dadabhai pointed out the railway wealth. He said, 'by the mere fact of the removal of wheat from Punjab to Bombay, not a single grain of wheat nor a single pie of money is added to what already existed in India before the wheat was touched'.⁸¹ Another example was internal trade. 'Not a single atom of money was added to the existing wealth of the country by this internal trade', declared Dadabhai and pointed out that, he is 'not discussing the usefulness of internal trade whatever it is; I am only pointing out that any increase in the material income of the country by the mere transactions of internal trade is a thing that does not exist'.⁸² Marx wrote about such non-productive work as follows: 'Neither difficulties of this metamorphosis nor the extent of the operation can transform this work which does not create values, but only serves to change the form of value into work which creates values'. Another example where Dadabhai's characterisation was very similar to Marx's could be cited. Regarding professional incomes Dadabhai held, 'The mere act of consulting professional gentlemen (doctors and lawyers) does not enable me to create money to pay them'.⁸³ Marx dealt with the same subject thus, 'If the capitalists and workers wanted as before, to consume the same values as material goods, they would have to purchase fewer services of doctors and teachers etc.; and if they were forced to spend the same amount on services, etc., they would have to diminish the consumption of other things. Thus it is clear that the work of a teacher or doctor does not create a direct fund from which it can be paid'.⁸⁴ This statement of Marx undoubtedly bestows great credit on Dadabhai who could catch the same truth almost simultaneously with Marx.

The absurdity of methods of assessing national income based on certain respectable categories of non-productive work which were parasitical, useless and socially harmful became apparent here in all its magnitude. Dadabhai saw the concealment of all parasitical, non-productive functions in such a method behind a screen of would-be creation of national income and also the diminution of the role of truly productive work. Like Marx, Dadabhai also realised that the number of persons living on the income of the productive workers was considerable only because the efficiency of productive work was high and, therefore, the additional material production on which parasites and useful professional classes could be maintained was great. We have to see that just as the theory of value was the basis of the Marxist method of assessing national income, a crude materialism and labour theory of value lay at the basis of Dadabhai's theory of national income, that the division of work into productive and non-productive and the very criterion of productive work, were to him the means of perceiving the economic basis of society.

81. Dadabhai, "Poverty and unBritish rule in India" - p. 179.

82. Dadabhai, "Poverty and unBritish rule in India" - p. 182.

83. Dadabhai, "Poverty and unBritish rule in India" - p. 184.

84. Marx, *Theories of Surplus Value*, vol. I (English Edition, Lawrence and Wishart).

Dadabhai also became historically important because of the method of his research. In his writings, the predominance of the inductive method was characteristic. He established general propositions as truths by induction, that is, by the observation of the numerous particular instances. He did not conceive economics as an abstract conception in isolation but viewed it as part of the other constituents of society and economic life - the state, politics and morality. He realised that economic phenomena were inseparably linked with sociological, political and moral happenings which fact saved his economic ideas from the severance from the indivisible whole of society.

Dadabhai absorbed many influences during the years in which his economic views were maturing. The influence of the physiocratic economic doctrine on him is not difficult to establish. In his adherence to the materiality concept of wealth and the circulation of national income, he had been profoundly influenced by the physiocratic writings. The debt he owed to the earlier English economic thought cannot be in doubt. His writings and speeches are evidence of the tremendous influence which the English classical economists had on him. Perhaps no writer was ever more carefully trained to carry on the classical tradition than was Dadabhai. In discussing the question of the material drain generally, he approvingly quoted John Stuart Mill (1806-'73) as an 'authority' on economics. With Mill, he believed that 'industry is limited by capital' and that 'industry cannot be employed to any greater extent than there is capital to invest'.⁸⁵ He believed that 'all capital and especially all addition to capital are the result of saving'⁸⁶ and that demand for commodities is not demand for labour'.⁸⁷ Dadabhai failed like Mill to analyse the factors behind the supply and demand of capital in the classical sense or in the sense of the utility and productivity theories and did not distinguish between constant and variable capital. But the chief use to which Dadabhai put these principles was to show the system of imperialist exploitation and expose the nature and effect of the foreign drain. He applied these principles to the particular case of India and arrived at the following conclusions. 'Poor India has not even to support its absolute want, even were the whole production employed in supporting labour. But as this is not the case, as there must be some portion of the produce consumed unproductively in luxuries, the share for the support of labour for reproduction becomes still more scanty; saving, and therefore addition to capital, being altogether out of the question. Moreover, not only is there no saving at the present rate of production, but there is actual continuous yearly abstraction from this scanty production. The result is an additional evil consequence in the capability of labour deteriorating continuously, for industry is limited by capital, so the candle burns at both ends, capital going on diminishing on the one hand, and labour thereby becoming less capable, on the other, to reproduce as much as before. The last theorem of Mill is a clear answer to those who say that because the railways open up a market for the commodities, the produce of the country must increase. I need only repeat that 'demand for commodities is not demand for labour', and that 'industry cannot be employed to any greater extent than there is capital to invest'. If these principles are fairly borne in mind and the element of the drain from India fairly considered, the gradual impoverishment, under the existing system of administration will cease to appear a paradox'.⁸⁸ The validity in practice of these most abstract concepts was tested on the concrete reality and thus Dadabhai showed how the abstractions of political economy enabled one to understand economic structures. He endeavoured to relate continually the economic concepts such as value, labour and capital to the fundamental conditions of industry and thus formulated a scientific theory of the foreign drain.

85. John Stuart Mill, *Political Economy*, chapter V, quoted by Dadabhai, "Poverty and unBritish rule in India" - p. 55.

86. John Stuart Mill, *Political Economy*, chapter V, quoted by Dadabhai, "Poverty and unBritish rule in India" - p. 55.

87. John Stuart Mill, *Political Economy*, chapter V, quoted by Dadabhai, "Poverty and unBritish rule in India" - p. 55.

88. Dadabhai, "Poverty and unBritish rule in India" - p. 56.

13. No recital of his debt to others could diminish the importance of his own achievements in the field of Indian economics. He wove together the separate strands of thought which he had found in the country and outside and in the process transformed their significance. Economic thought is always related to economic practice and a study of the interplay between objective conditions and the theorising of the particular economist can provide a guide through the conflicts of ideas. In Dadabhai's case our knowledge of the circumstances of his life and times is complete enough for an exhaustive demonstration of the causes which have produced the ideas which are to his credit today. It has been said that Dadabhai represented the interests of a single class - the rising bourgeoisie of the time. This is undoubtedly true in a historical sense. The success of his advocacy of a particular interest against the privileged position of the foreigners who were the most formidable obstacle to the growth of industrial capitalism was assured because it was simultaneously a defence of the common good under the guise of 'universal benevolence and justice'. He more than any other Indian economist reflects the time in which Indian nationalism attained strength and shape. He also reflects the fact that new problems were clamouring for notice.

Chapter 3

Mahadev Govind Ranade

Mahadev Govind Ranade was born on 18th January, 1842 at Nasik. He graduated in 1862 and took his M.A. in 1864. In 1866, he got his LL.B. In 1864, he started teaching Economics in Bombay University. In 1866, he was appointed Oriental Translator to the Government of Bombay. In 1867, he became Judge in the State of Kolhapur. In 1868, he returned to Bombay where he was appointed Professor in English and History at the Elphinstone College. In 1871, he was appointed a Judge by the Bombay Government.

In 1872, he wrote a report for the Sarvajanik Sabha on the Material Conditions in the Maharashtra District. In 1877, he published an epitome of the Fawcett Committee's Report on Indian Finance, entitled A Revenue Manual of the British Empire in India. After the Famine of 1877, he wrote a paper entitled Famine Administration in the Bombay Presidency. He was closely associated with the Quaterly Journal of the Sarvajanik Sabha.

In 1885, Lord Reay nominated him to the position of the Law Member of the Bombay Legislative Council. In 1886, he was appointed to a Government of India Committee on expenditure and retrenchment as the representative of the Bombay Government. He was made Companion of the Indian Empire in 1887. In 1893, he was appointed to the Bench of the Bombay High Court.

He was closely connected with the Indian National Congress. In 1890, he formed the Industrial Association of Western India.

He died in 1901.

1. Mahadev Govind Ranade was the first economist who laid down the conditions of economic progress for India and showed a whole range of possible policy to achieve this progress. He was not gravely concerned with attaching a precise and definite connotation to the phrase economic development. It was his contention that economic change was a complex phenomenon, that it had many causes - often interrelated - and that it must be studied in terms of this complex causal structure. Purposive changes by means of policy decisions on the part of society were included in his system. For him the process was always one of mutuality between the psycho-institutional causes and the purposes of human agents. It was to Ranade that one naturally turned for a comprehensive theory of economic development in Indian economic thinking. He was in the first instance concerned with the problem of how the scarce means could be increased in number and efficiency whereas modern economics is concerned with the problem of the allocation of scarce means to a multiplicity of ends.

It was Ranade's idea that conclusions regarding Indian economic problems and policies should be drawn with special reference to the peculiar conditions of the country and of the people. He could be ranked among the relativists in Economics along with Roscher, Knies and Hildebrand. Before all, Ranade was of outstanding importance thanks to his method. He was little concerned with systematised investigation rigidly confined to the theoretic plane; but in India he had never been excelled or equalled in respect of a vivid way of contemplating economics historically. He advanced beyond the abstract, atomistic outlook of Smith and Ricardo. Methodologically, this procedure was rounded off by the introduction of the concept of the concrete cultural community and the idea of the nation (state) as a factor of economic change. As Hildebrand wrote of List, it can be said that Ranade 'pricked the economists of (India) to historical study'.

2. The background of Ranade's economics.

The range of the period during which Ranade's essays appeared was remarkably short. The first eight essays in Natesan's Collection were all written within a period of four years from 1890 to 1893. His Essay on the Bengal Tenancy Bill, published in 1883, showed that his ideas had at that time been taking shape but the final formulation came in the early nineties. Ranade wrote at a time when the Government of India had been following an economic policy based to a very large extent on the needs of British mercantile interests in India. Need always dictated governmental policy and often principles were evolved and advocated so as to give a refined background to the policies that had to be adopted. For India, too, when the foreign Government in the country had been trying to foster complete free trade, the main reason was to give Britain's exporters an unrestrained access to the Indian market. From 1882 to 1894, India was practically a free trading country. Ranade wrote his essays towards the close of this period.

The adoption of free trade in India came to synchronise with an opposite movement in the West. The period during which Ranade's economic writing saw light was one in which Germany, France and the U.S.A. had all been experiencing the benefits of prosperous protectionism. By 1852, almost the whole of Germany had come to be included in the Zollverein and the measures that had been adopted during the forties were definitely influenced by the ideas of Friedrich List whose book was published in 1841. The German Economic Congress established in 1858 was against state intervention of all kinds and the new customs union that followed the Zollverein in 1866 was showing signs of anti-protectionism. The protectionists could not be subdued, however, and led by Bismarck, they triumphed over the German members of the Manchester School in 1879. Ranade was intensely interested in the German experiments and wrote at a time when free trade had been tried and discredited in Germany.

France was another great country which was attracting Ranade's attention. The Second Empire founded in 1852 was definitely against protection. A 'liberalising' movement was started on the lines of Peel and Gladstone in England which resulted in the Cobden-Chevalier treaty of 1860. But soon a reaction set in; the Third Republic introduced protection again; in 1881 and in 1885, the tariff was readjusted to give effective protection to the industries and at the same time to serve as a basis for negotiation of commercial treaties. Ranade was a close student of French policies and this swing-off from *Laissez faire* in France influenced him greatly.

The U.S.A. in the eighties was protectionist without any reservations. Even Great Britain, after having worshipped *laissez faire* for half a century, had come to question its efficiency and even its theoretical foundations. The imports into Great Britain had increased rapidly and the depression in agriculture during 1885-'90 was attributed to foreign competition. Public opinion was influenced by the policy of economic nationalism adopted by the neighbouring countries. Fair trade as a substitute of free trade was vehemently advocated and the ground was being set ready for Joseph Chamberlain. While *laissez faire* had thus been definitely abandoned on the European Continent and America and its end was in sight in England, the Government of India was strictly adhering to a policy of *laissez faire*, with the exception, perhaps, of the Factory Act of 1881. This measure was enacted more in the interests of the manufacturers in Lancashire than in those of the labourers in Bombay. Public opinion was slowly raising its head against the indifference of the Government. The founding of the Indian National Congress and the Annual Industrial Conference were both ample evidence of the uneasiness which thinking Indians had come to feel. Ranade represented all these facts and forces and his ideas, therefore, assumed a life and nurture from the economic world around.

3. The theoretical background and Ranade's criticism of the classical school of Political Economy.

Ranade strongly criticised the position of earlier English economists, like Adam Smith, Ricardo, Senior, James Mill, McCulloch and Malthus, who evidently assumed in their reasonings that they were dealing with human beings as they actually

exist. Adam Smith, for instance, believed that economic life developed best when it was left alone. The main business of the State was to keep order. Economic activities, when left perfectly untrammelled, develop harmoniously, and enable free competition to do its work. It was his belief in the natural balance of human motives which led him to make his famous statement that in pursuing his own advantage each individual was led by 'an invisible hand' promoting general welfare. 'Human institutions only interfere with this tendency and when all the restraints are removed, the obvious and simple system of natural liberty establishes itself'.¹ Ricardo and Malthus were, in Ranade's view, still more dogmatic and absolute in their assertion and when they applied these rules of the natural order to economic matters, they became strong opponents of all forms of State interference with the ordinary business of industry and commerce. Ranade summarised the general assumptions of these early economists which they believed to be universally true in the following propositions:

1. That National Economy was essentially individualistic and had no separate collective aspect.
2. That the individual or typical economic man had no desire but that of promoting his own self-interest or at least that was his strongest motive power.
3. That this self-interest was best promoted by the largest production of wealth, i.e. articles with value in exchange, at the least trouble.
4. That such pursuit of private gain by each individual promoted best the general good.
5. That the free and unlimited competition of individuals in the race and struggle of life was the only safe and natural regulator.
6. That all customary and state regulation was an encroachment on natural liberty.
7. That every individual knew best his interest, and had the capacity and desire of acting according to that knowledge.
8. That there was perfect freedom and equality in the power of contract between individuals.
9. That capital and labour were always free and ready to move from one employment to another where better remuneration was expected.
10. That there was a universal tendency of profits and wages to seek a common level.
11. That population tended to outstrip the means of subsistence.
12. That demand and supply always tended mutually to adjust each other.

Ranade held that they were literally true of no existing community. To the extent that they were approximately true of any state of society, the assumptions explained only a static economic situation of the particular society. 'Even then they furnish no suggestion as to its dynamic progress or development. As these assumptions do not absolutely hold good of even the most advanced societies, it is obvious that in societies like ours, they are chiefly conspicuous by their absence. With us an average individual man is, to a large extent, the very antipodes of the economic man. The family and the caste are more powerful than the individual in determining his position in life. Self-interest in the shape of the desire of wealth is not absent, but it is not the only or the principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited competition except within certain predetermined grooves or groups. Custom and State regulation are far more powerful than competition, and status more decisive in its influence than contract'.² Turning to the factors of production, he observes: 'Neither capital nor labour is mobile and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed and not elastic and responsive to change of circumstances. Population follows its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons. In a society so constituted, the ten-

1. Ranade's Essays on Indian Economics - p. 8.

2. Ranade's Essays on Indian Economics - p. 9.

dencies assumed as axiomatic are not only inoperative but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea or the waves to fill up or of the sun to get cold, as reasons for our practical conduct within a measurable distance of time'.³

Ranade tried to show the hypothetical character of the entire doctrinal economy by recourse to J.S. Mill. He quoted Mill who stated in the Preface to his 'Principles' that for practical purposes, political economy is inseparably intertwined with many other branches of social philosophy. Except in matters of mere detail, there are perhaps no practical questions even among those which approach nearest to the character of purely economic questions which admit of being decided on economic premises alone'. Ranade noted as characteristic of Mill's work his recognition of an essential difference between the laws relating to the production of wealth (which he calls universal and not arbitrary) and those which regulated distribution. Mill recognised the necessity on verification to establish the soundness of the hypothesis regarding economic situations.

Ranade asserted that the traditional system of economics rested on the assumptions which were not only true generally but were true only of England at a particular point of time.⁴ It did not explain the economic life of earlier times or of the contemporary times in other countries. It was insular and had not obtained general recognition by reason of its being chiefly a convenient series of deductions from assumed axioms which were in many times and places not true and were only true of English society of 1760 and not so true of the same society in 1860. Ranade agreed with Sidgwick, a contemporary writer, in his view that the abstract method was useful only for the statistical study of an economy and that its conclusions even within this province were only hypothetically valid. In the dynamic study of progress, he held that the value of the deductive method was almost nil. The economy of every nation was the result of a long growth in which there had been continuity and change and the economic side of this change was only a particular aspect. The laws of social progress in wealth must be sought in the history of the general social evolution which was different in different countries.⁵ Ranade quoted Jevons who was convinced of the sterile character of the hypothetical system. For Jevons, the only remedy to cure the defects of this system was to free economics from preposterous assumptions of the earlier school. Ranade's object in examining these various trends of contemporary thought was to show that even 'in the land of its birth and highest development, the claims of political economy as ordinarily taught in the text books have been seriously questioned and its value as a guide to practical conduct greatly discounted'.⁶

Ranade attributed this reaction among the English writers to the influence of the great French and German writers. In his opinion Auguste Comte was the first who denied the name of science to the doctrines taught by the deductive school and he elaborated his own method of research, followed up by the German and English thinkers. The French reaction against the conclusions of the English economists found expression in Sismondi. He charged that the individualist school had tendencies by which the rich became richer and the poor were made poorer. He fought against the abuses of the laissez faire and sought government intervention to protect the masses against the classes. Ranade fully shared Sismondi's view that the state was not merely an agency for keeping peace but that it was an organisation for securing the progress of the people as widely as possible and for extending the benefits of such a social union for all.

3. Ranade's *Essays on Economics* - p. 10 (Published by Thackers & Co, Ltd., 1899).

4. Ranade quotes Bagehot in this view.

5. Ranade quotes Mr Cliff Leslie on this point.

6. Ranade's *Essays on Economics* - p. 11.

Ranade was strongly influenced by two American thinkers, Hamilton and Carey. Hamilton was one of the fathers of the American constitution and he stated that the English doctrine of absolute freedom was practicable only if all nations accepted free trade views simultaneously. He suggested a scheme of protective tariffs which were later on adopted as the leading feature of American State Tariffs. Ranade was very much impressed by Professor Jones who had before Carey attacked the Ricardian theory of rent as being true only of farmer's rents and as wholly inapplicable to the Indian ryots' rent or Metayer or Cottier rents. Carey even denied that there was any economic rent. In his view rent was only a remuneration in the same way as profits of past invested capital or labour. Like Sismondi, Carey regarded the State as a coordinating power in society which checked the tendencies of individuals to seek immediate gain at the sacrifice of permanent national interests. He also asserted that protection was justified as being the only means by which the obstacles thrown in the way of younger and less advanced countries by more advanced nations could be removed. Ranade found support in this view also from the Italian economists of his time, Gioga and Ludovico, who advocated state regulation of industry and asserted the doctrine of relativity as being an essential factor of all true economic theory.

The clear-cut and positive exposition of this trend of thought was found in the German school of Muller and List, whose influence on Ranade was unmistakable. It was from Muller that he learnt to reject the dogmatism of English classical thought and to regard national existence as of greater importance than mere individual prosperity. The writings of Friedrich List gave the fullest expression to this revolt against the orthodox teachings. Ranade learnt from him that national well-being did not consist only in the creation of the highest quantity of wealth measured in exchange value, independently of all variety of quality in that wealth, but in the full and many-sided development of all productive powers. 'The nation's economic education is of far more importance than the present gain of its individual members as represented by the quantity of wealth measured by its value in exchange. In a sound and normal condition, all the three departments of national activity must be fully developed. Commerce and manufactures were, if possible, more vital in their bearing on the education of the intelligence and skill and enterprise of the nation than agriculture'.⁷ Ranade thought that in a purely agricultural country like India, there was a tendency to stagnation and absence of enterprise and the retention of antiquated prejudices. The function of the state, according to him, in such circumstances, was to help those influences which tended to secure national progress through several stages of growth and to adopt free trade or protection as circumstances might require.

The elaboration of the ideas of the historical school in Germany under the stimulus of the success of the comparative method in philology and jurisprudence influenced the English thought greatly. Leslie and Jevons were the products of this influence. In Germany itself, Rau, Knies, Roscher, Hildebrand and Wagner worked on these lines. They advocated that economics was only one branch of sociology and like all social sciences must be studied both in its static and dynamic conditions. This German school regarded that universalism and perpetualism in economic doctrines were both unscientific and untrue. Ranade fully shared this view.

A comparative study of English and continental economic systems taught Ranade that 'the individual and his interests are not the centre round which the theory should revolve, that the true centre is the body politic of which that individual is a member and that collective defence and well-being, social education and discipline and the duties - and not merely the interests - of men must be taken into account, if the theory is not to be merely utopian'.⁸ Ranade gave up the deductive method in favour of the historical method which took account of the past in its forecast of the future. He insisted that relativity and not absoluteness should character-

7. Ranade's *Essays on Economics* - p. 19.

8. Ranade's *Essays on Economics* - p. 21.

ise the conclusions of Economic Science. He warned that 'the divorce of theory and practice is a mischievous error which relegates the science to the sterility of an ideal dream or a puzzle'. For him, 'theory is only enlarged practice and practice is theory studied in its relation to proximate causes. The practice is determined by the theory which tests its truth and adapts it to the different conditions by reason of its grasp of the deep-seated, permanent, varied basic truths'.⁹ Ranade was of the view that the nature of the subject itself as a branch of social sciences was best studied historically and not deductively.

4. Ranade and the evolution of a theory of economic development.

The quasi-historical laws of capital accumulation, of diminishing returns and rent, of population growth and production of comparative advantage and foreign commerce of the classical school, tempered and reshaped by the German Historical and Relativist schools, provided adequately the conditions for the evolution of a theory of economic development. Economics had reached a stage where it became possible to generalise about human motives under certain like circumstances. It was impossible to develop any theory of causal change and development involving industrial concentration without making certain generalisations about human behaviour. Therefore the definition of the areas of decision became the function of economics. Further, in an economic situation which was comparatively simple like that of India, constantly repeated in the essentials of economising scarce means to satisfy as highly as possible an unlimited hierarchical system of wants, it was perfectly possible to generalise on the basis of probability theory about how factors of production would behave. In order to properly define areas of decision and fulfil the function of informing policy in the special Indian conditions, Ranade found it necessary to explain development in terms of economic, social and political institutions by means of which the Indian economic system truly functioned. It was Ranade's contention that economic development was a complex phenomenon, that it had many causes, interacting and interrelated. Purposive changes in economic institutions and structure by means of policy decisions on the part of the society were included in his system. For him, the process of development was always one of mutuality between institutional causes and the purposes of human agents. Ranade, therefore, became the first to visualise a planned economy for India. Ranade discussed the physical and institutional laws that would determine the sequence of events in the Indian development pattern. Ranade in some places gave the impression that he considered the whole basis of economics to be quite different in India from what it was in the western world. The main pre-suppositions of theoretical economics - perfect mobility (implying perfect competition) in the case of both factors of production and of commodities and the divisibility of the supplies of factors and commodities into small units - constituted the marginal analysis. This was perfectly valid only in relation to the actual economic world of nineteenth century England. Ranade saw that in the villages of India the normal type of economic life tended to evince perfect immobility (with the quantity of land and labour regulated by custom and with entry into each occupation regulated not by relative net advantages but by the caste into which persons happened to be born) and indivisibility of supply of factors and communities (e.g., the supply of workers did not have the form of a collection of units in competition with each other and capable of being applied singly). Under these pure Indian conditions there was an exchange not of goods but of services and the remuneration of services was determined arbitrarily by a distribution imposed through social power. There was no real bargaining since there were no alternative uses for benefactors and products. There was bilateral monopoly, the outcome of which as regards distribution was recognised as being completely indeterminate. Under such conditions, the division of the product of industry could only be determined by social custom and the relative social standing and strength of two parties. But Ranade did not say that different economic laws should arise in India correlated to these typically Indian conditions of a rigid society. He also knew that there could not be a science of economics where the de-

9. Ranade's *Essays on Economics* - p. 21.

terminants were social custom and the social status of two parties. He saw before his eyes how the old rigidities of the Indian society were breaking down under the pressure of the new social forces. Whenever this was modified by the appearance of some slight mobility, competition and even the possibility of alternative uses for factors and commodities appeared more than ever on the scene. Ranade clearly observed how the economic explanation of the society's functioning was fast entering upon that path which led ultimately to the highway of the thorough-going market analysis and its economic laws.

5. State action.

The meddlesomeness of the mercantilist system provoked a reaction against state control and guidance towards the end of the last century in favour of natural liberty. The doctrines of this negative school had been abused by a too logical extension of its principles. There was a decided reaction in Europe against the laissez faire system. Even in England, the recent factory legislation, the qualified recognition by law of Trade Unionism, the Poor Law System and the Irish Land Settlement, were all instances which indicated the same change of view. The province of State interference and control was practically being extended so as to restore the good points of the mercantile system without its absurdities. The State was now more and more recognised as the national organ for taking care of national needs in all matters in which individual and co-operative efforts were not likely to be so effective and economic as national effort. This was in Ranade's mind, the correct view to take of the true functions of a State. To regulate them to the simple duty of maintaining peace and order was really to deprive the community of many of the advantages of the social union. 'The question is one of time, fitness and expediency, and not one of liberty and rights', he declared.¹⁰

Ranade raised his voice against the pernicious influence that the Ricardian and Benthamite doctrines were producing on the economic and social policies of the Government of India. Not just the maintenance of law and order but cultural development was for him the proper or the ultimate objective of State activity. The conception of a State maintaining strict non-intervention while allowing unchecked waste or exploitation offended against Ranade's deep-rooted respect for a just and beneficent order of things. As representing all the interests in society, it was not only permissible but obligatory upon the State to guide all aspects of social life into channels recognised to be in conformity with the accepted goal of life. This concept of State action was, probably, prompted by India Government's policy of inactivity. Ranade did not approve of the shortsighted engrossment of India with State or government as opposed to national credit. All the financial policy of the Indian Government then consisted, as it did in a large measure up to the present day, in cutting expenditure on all non-essential services and meeting all ordinary, and a good deal of extraordinary, expenditure by taxation. On account of the non-industrialised and small-scale nature of the Indian economy and the thoroughly undemocratic character of Government, taxation tended to be regressive. Agriculture and industry both suffered from the State policy of inaction. Agriculture suffered doubly, in as much as it was also the most heavily taxed industry. The solvency of the nation, depending on the surplus of the industry of the people, steadily deteriorated, while the State claimed to have a high credit in the foreign money market. This was only one of the many glaring inconsistencies of Indian economic life, which Ranade traced to the wrong theory of an individualistic and non-interfering State professed by the then Government of India. The realisation of the futility of demanding protective tariffs from the rulers of India in the eighteen nineties led him to advocate direct action of the State with a view to causing a diversion from small-scale agriculture to large-scale farming, from agriculture itself to industries, from 'rustification' to urbanisation, from internal trade to external trade and lastly from labour immobility to colonial migration. All this was to be brought about by active encouragement and assistance of the State.

10. Ranade's *Essays on Economics* - p. 32.

Ranade's ideas about what the Government should do were precisely stated in his inaugural address at the First Industrial Conference at Poona in 1890: 'While we put forth our energies in these directions, we can well count upon the assistance of the State in regulating our co-operative efforts by helping us to form Deposit and Finance Banks, and facilitating recoveries of advances made by them, by encouraging new industries with guarantees and subsidies, or loans at low interest, by pioneering the way to new enterprises, and affording facilities for emigration and immigration and establishing technical institutes and buying more largely the stores they require here, and in many cases, by producing their own stores'.

It appeared, however, almost certain that his indifference towards tariff was the result of the realisation that it would be futile to attempt to induce the Government to adopt a protectionist policy. He was himself probably convinced, as were the English economists of his time, that the case for free trade was fundamentally strong and that the case for protection had to be on the defensive. But then the whole of the economic policy advocated by Ranade was on the defensive, representing as it did a breaking away from the established line of action. The tariff would have been nothing more than this. Ranade would have been a strong upholder of tariffs if he had not realised that to ask for a tariff in India in 1890 would be almost equivalent to asking the British to leave India. Ranade was enough of a realist to limit his demands to the minimum that our rulers then could and would give. A tone of helplessness could be noticed in the following passage: 'It is not open to us adopt certain plans of operation, which, however much they might be condemned on abstract ground, have been followed with practical success in many of the most enlightened countries of Europe and America. We cannot, as with the Governments of these countries, rely upon differential tariffs to protect home industries during their experimental trial. We cannot expect the Government here to do what France or Germany do for their shipping trade and their sugar industry and ask government bounties and subsidies to be paid out of general taxes. These are heresies according to English political economy, such as is taught to us, and whether they be really so or not, it is useless to divert our energies in fruitless discussion and seek victory over free trade'.¹¹ Ranade felt, that the British administrators in India were suffering from a conviction that these matters lay outside the province of Government. He wanted the State to give up the policy of 'let alone' and to make active efforts in all directions to stimulate production both of raw and manufactured products. He argued, 'if the State can legitimately undertake from borrowed funds the construction or subsidisation of railroads and canals, if it can afford to sell the free simple use of wastelands at nominal rates to European settlers on the hills, the road is certainly open for a further development of the same industrial effort on new lines'. In this connection, he was very much influenced by the Dutch Government's action in Java.

The Java 'Culture System' of encouraging the planting of remunerative crops introduced by Governor Van den Bosch in 1831-'33, though not without serious faults helped to develop the resources of the country. The principle underlying the railway policy of the Government of India was one and identical, in Ranade's opinion. In his view, this helped not only to grow more raw produce of a high order but to manufacture it. Ranade argued that 'the Government of India when it adopted the policy of constructing the productive works out of borrowed capital did in fact affirm the principle that in the peculiarly backward condition of the country the development of its resources could not be left to independent private enterprise, and that as representing the general public, it was bound to utilise public resources of credit and its superior intelligence and organisation for the advantage of its subjects by undertaking the great railway and canal constructions in the country'. Ranade believed that 'the State, as representing the public, has a right, and is under corresponding obligation, to undertake all functions which it can best perform to public advantage'.¹²

11. Ranade's Essays on Economics - p. 202.

12. Ranade's Essays on Economics - p. 87.

Ranade, therefore, recommended that 'each district might have a fund to develop its resources in its own way, and several districts might combine together to support a strong undertaking to common advantage. If the powers of these boards were enlarged, there would be no risk of loss to Government and the boards might take considerable profit by the use of money and thus relieve the burden of local taxation'. This, he maintained, would enable the country to obtain a new start and factories and mills on a small or large scale should be set up all over the land. 'This is our plan', said Ranade.¹³

Ranade admitted that the State in India had done much in this way in the working of iron and coal fields and in the experiments made about cotton and tobacco, and in tea and coffee and cinchona plantations; but he thought that, compared with its resources and the needs of the country, these attempts were nothing by the side of what had been attempted with success in France, Germany and other countries. There was, in his opinion, the duty cast on the State 'of utilising indigenous resources and organising them in a way to produce in India in State factories all products of skill which the State Departments require in the way of stores'.¹⁴ Ranade pleaded vehemently to free the minds of the rulers from 'the fear of offending the so-called maxims of rigid Economic Science'. In this, as in other matters, Ranade maintained that 'the conditions of Indian life are more faithfully reproduced in some of the continental countries and in America than in happy England, proud of its position, strong in its insularity and the home of the richest and the busiest community in the modern world'.

6. Industrialisation.

When Ranade talked about economic development he was in danger of speaking vaguely. He referred to changes in the operation of the causes of economic movement such as changes in population, structure and techniques of production (technology); changes in the economic and social institutions and also the influence of social action and organisation. For Ranade, the biggest economic problem of India was her poverty. The bane of such a situation was that it was so exclusively agricultural. Only a balanced development among agricultural and commercial pursuits could render a society immune from the vagaries of a tropical climate. Ranade, however, realised that a mere balance without a powerful industrial base would not help to relieve the innate precariousness of a backward economy. He, therefore, suggested that industry as well as agriculture must be mechanised. By a steady building up of a suitable industrial structure, the habits of the people must be gradually improved. In his view, the efficiency of labour and organisation were matters which the experience of the new order could alone help to promote. The utilisation of scientific research for industrial development, and the co-ordination of educational, industrial and administrative functions must be realised at all stages of the process of industrial transformation.

Ranade held that there were intimate relationships between economic and social, governmental and non-governmental, fiscal and administrative plans. He thought that unless a better educational and training programme was available to prepare skilled workers, unless greater public health measures for the efficiency of the population were provided, any development project might break down. A good system of communications, operated in the interests of national economy, was an instance in point. The development of one method of transport to the neglect of another or the extension of communications beyond ascertained needs were both to be deprecated. Development of transport would directly help in industrialisation, for it would lead to the establishment of engineering and metal industries alongside of new and subsidised methods of communications. One of the most concrete opportunities for planned development, in Ranade's view, existed in the Government's own construction

13. Ranade's Essays on Economics - p. 96.

14. Ranade's Essays on Economics - p. 33.

plan or public works programme. When the capital investment was lacking generally, the government's programme might constitute the bulk of the engineering and construction work in the country.

As regards the character of industrialisation he was very realistic. A successful industrialisation programme required that the products should command a wide and steady market. Luxury industries or court industries usually had an unstable existence. A fully capitalistic development necessitated investment of large quantities of resources in anticipation of future returns which was only attained in the production of staple commodities of wide consumption. He was against luxury industries in the first phase of development. Ranade believed in more urbanisation. Modern industry by its very nature tended to be urbanised, he said. It either started in an urbanised area where special advantages, either with regard to finance, labour or transport, obtained, or the places where they started themselves developed into big cities. Only in special cases of natural or inherited advantages, like those of Japan and Switzerland, was a certain dispersion of industrial production possible. Instead of working for an unnatural ruralisation of industry, it was better to regulate the inevitable urbanisation so as to produce highest advantage at lowest social cost.

7. Agriculture and industries based on agriculture.

Ranade strongly held that the urge for industrialisation should not be allowed to blind us to the basic position of Indian agriculture. Socially, politically and industrially, India was destined to remain a predominantly agricultural country. It was in wider national interests including those of agriculturists themselves that the development of scientific and organised business was to be desired. But the agriculturist must not be isolated from this movement nor must his basic position in Indian economy be ignored. The progress of Indian economy would be measured by what it meant to the average agriculturist.

Ranade held that the improvement of agriculture and the development of industry should go hand in hand, but in the Indian condition the latter was of prior urgency. In India population was so large in relation to cultivable land that investment in agricultural machinery would be wasteful. Though technical changes which increased yield per acre were of importance, Ranade realised that substantial technical progress in agriculture was not possible without reducing the numbers engaged in agriculture. Ranade was, therefore, of opinion that a programme of agricultural improvement had to start by developing manufacturing industries which would absorb the surplus population of agriculture. In working for industrial progress Ranade was certain that he was acting in the best interests of the farmers and the development of manufacturing industry was for that reason, apart from others, of highest priority.

In his scheme of economic and social organisation, high and low farming were to exist side by side (large-scale farming and family farming). The advantages of having an independent peasantry were too obvious for him. He was not blinded by the proletarian complex of an industrial age. He knew that the sure foundations of society, whether economic or political, must be laid on a body of free and well-to-do farmers. He knew, however, that for progress, leisure was necessary. That leisure might conceivably be the outcome of an unjust social system or that it might lead to a decay rather than to progress was no condemnation of a justly secured and wisely employed leisure. It was for the latter that Ranade desired to plan. The accumulation of capital and the enterprise for new methods of production were to be supplied by the bigger proprietors who were to work not in a chaotic and predatory society but in a well-planned and regulated organisation.

8. Industries based on agriculture.

Industries that had to be habilitated for other than economic considerations were in a class by themselves. But in so far as genuine development of the nation's economic effort was concerned, Ranade advised that India should follow the line

indicated by the staple products of Indian agriculture. Of his suggestions, the textile, iron and sugar industries had already made good their position. It was clear that these industries had secured their progress without much loss to the legitimate interests of the consumer, the primary producer or the State. Other industries in the same class which had not as yet fully found their feet were oils, dyes, leather and tobacco. The technical and organisational problems raised by these industries were extremely complicated. Ranade held, however, that if these industries made anything like the remarkable progress made by some of the other protected industries, the standard of life of a large section of the people would be considerably raised. The 'culture system' of the Netherlands Indies was taken by Ranade as an example of wise State intervention in economic matters. His account was based upon the official report submitted to Lord Dufferin by Van den Berg, the President of the Bank of Java in 1885. There was no doubt that the system succeeded in developing the resources of the island, though it caused terrible suffering to a whole generation of peasants which was the price paid for this progress.¹⁵ Ranade thought the sacrifice was, perhaps, unavoidable and it seemed that no price was too high for him if it brought industrial development of the country.

9. Ranade's ideas on rent and agrarian laws in India.

Ranade did not accept the position of the unearned increment as a leading feature of the law of rent in India. The unearned increment theory fitted in only where landed property continued for generations in the possession of the same family. If the land changed hands, the incoming purchaser bought it at its market value, and he enjoyed no unearned advantage and the so-called rent was but a return by way of fair profits on his investment. The English conditions of landlordism where the land under a complicated system of entails and settlements and primogeniture continued in the same family for generations, allowed free play to the law of the unearned increment. Here in this country, Ranade argued, lands and houses were not tied up and they changed hands frequently and largely. In every twenty years, the Registration Returns showed that the value of sales came up to the total value of landed property. In one generation property thus changed hands and when new men came in as purchasers of value, they did not enjoy any unearned increment of the past, but had to pay full value for the differential advantages of superior productiveness and vicinity. In the same way the Ricardian position that 'economic rent' did not enter as an element of price admittedly did not apply when all occupied land had to pay monopoly rent to the State. There was no competition among landlords in this country, for there was only one true landlord and the so-called Land Tax was not a tax on rents proper but frequently encroached upon the profits and wages of the poor peasant who had to submit perforce to a loss of status and accommodate himself to a lower standard of life as pressure increased.¹⁶

Lastly, Ranade justifies the attempts made by the Governments in India as well as in England to check the abuse of competition among poor tenants by conferring for a term of years and imposing limitations on its increase. In this matter the tenants of Government claimed the same consideration as those of private Zemindars. The justification for this active interference was as valid in regard to agricultural labourers and tenants, as it was in the case of factory labourers and miners in Europe. These people were unable to combine for self-protection or at least their combination was not so effective as that of the employers of labour and when their efforts failed to obtain regular redress, disorder and misery resulted as consequences and threatened public peace and general well-being. In the same spirit, the regulation of the freedom of contract in regard to the fixing of rates of interest in transactions between the poor, disunited, indebted classes and the money-lenders, and the protection of immovable property from being sold away for improvident debts, not secured on the same, were all legitimate forms of protection of the weak against the strong and no doubt affected the real freedom of distribu-

15. M. Cabaton, "Java, Sumatra and other Islands of the Dutch East Indies".

16. Ranade's Essays on Economics - p. 31.

tion. Ranade conceded freedom when the parties were equally matched in intelligence and resources; where this was not the case, all talk of equality and freedom only added insults to injury. Ranade maintained that it was in this spirit that the distribution of produce among the needy many and the powerful few had to be arranged, i.e. in a spirit of equality and fair play and the orthodox views of finality in such matters should be reconsidered in all the relations of life.

These ideas of Ranade were clearly reflected in his views regarding the Law of Land Sale in British India.¹⁷ Ranade saw that in consequence of the law which made land, both ancestral and acquired, freely alienable for the debts of its owner, a great change was slowly but steadily taking place in the status and position of the proprietary classes. All over India lands were sold for arrears of revenue by the Revenue Officers and for decreed debts, both secured and unsecured, by the Civil Courts through the coercive process of sales. This change was visibly tending to the impoverishment of the old proprietors and transferring the lands into the hands of strangers and non-residents who generally belonged to the mercantile and trading classes, who bought up the land for no other attraction than its character as a paying investment. This change of possession had excited some attention, especially in the North-Western Province; but at the same time, the Government of that province expressed its inability to do anything more than to watch the natural and unrestricted course of free transfer of property. The Governments, however, did not act in regard to legislation till the reaction caused by the Mutiny suggested the introduction of sections 194, 243, and 244 in the Code which could be reckoned as the first acknowledgement of a change of Government policy. The object was to protect and preserve the old hereditary proprietors in view of the sentiment regarding ancestral land. Except in the provinces of Bengal, Bombay, Madras and North-West Frontier, the power of allowing the sale was left to the discretion of the Chief Revenue and judicial authorities. This acted as a deterrent upon money lenders who seldom succeeded in making out a case to satisfy the authorities. Yet these measures proved comparatively ineffective in operation. The causes for the failure of legislation Ranade sought in the transitional character of the Indian economy. The country was in a 'transition stage passing from semi-feudal and patriarchal conditions of existence into a more settled and commercial order of things, from a period of disturbance and wars into one of peace and tranquillity, from payments in kind to cash payments, from the laws of custom to the rule of competition, from a simple to a more complicated social organisation'. No economic legislation could succeed under such circumstances which sought to run against the current, or stem the torrent'. In all countries property, whether in land or in goods, must gravitate towards that class which has more intelligence and greater foresight and practises abstinence, and must slip from the hands of those who are ignorant, improvident, and hopeless to stand on their own resources. This is a law of providence and can never be wisely or safely ignored by practical statesmen for any fancied political or sentimental considerations'.¹⁸ 'As long as the difference in the habits and education of the saving few represented by the Bania and the Brahmin classes and the spending many who count by millions among the military and cultivating classes remains good, property will gravitate from one class to the other, notwithstanding all prohibitory legislation. The utmost that the Government can safely do is to regulate this inevitable transfer, to temper the change so as to avoid all immediate hardships. An insolvency law cannot benefit anybody. A law of enforced Entails cannot be expected to work when the notion of equal inheritance by birthright is so thoroughly ingrained in the national mind. A minimum sufficient for subsistence cannot be fixed when the natural conditions of soil and climate permit of the lowering of the standard of necessary comfort to any conceivable limit. The forcible prohibition of all transfer of real property, voluntary and involuntary, can never mend matters. It can only stereotype existing poverty and aggravate existing helplessness. The Government of such a large empire cannot afford

17. Ranade's "Law of Land Sales in British India", first published in 1880.

18. Ranade's *Essays on Economics* - p. 307.

means to be the banker of its millions of insolvent tenants, and cannot equalise the changing conditions of bad harvests and scanty or irregular rainfall. It must accept as inevitable the tendency to concentration of the landed capital of the country and only limit its agency to the minor work of smoothing the gradual change'.¹⁹ The only settlement to this problem, according to Ranade, was that the Government should withdraw from its position as landlord, and look upon the land tax like any other monopoly taxes. A permanent Ryotwari settlement fixed in grain which the land produces, and commuted into money values every twenty or thirty years, could alone furnish a solution of this agricultural problem. If differences subsequently sprang up between class and class, as they had on occasions sprung up in Bengal, the Government could interfere as mediator and right matters by protecting the weak against the strong. Ranade knew, however, that the Government would not, for political considerations, accept this position or allow middlemen to come between itself and its proper tenants. 'Any attempt to undo the legitimate influence of the saving classes can only end in a great disaster'.²⁰ To quote his own analysis of the situation, 'In a living organism, as society is, no revival is possible. The dead and the buried or burnt are dead, buried and burnt once for all and the dead past cannot be revived except by a reformation of the old materials into new organised beings'.²¹

10. Credit, investment and employment.

'No fact in the economic condition of India', said Ranade, 'arrests attention more forcibly than the contrast presented by the hoards of unused capital, stored up in the vaults of the Presidency and other Exchange Banks and the high premium Government Securities command on the one side and on the other the paralysis of industry in rural India, due to the poverty of resources of the classes engaged in the production of wealth'. The problem, as Ranade saw it, was not the lack of capital seeking investment; there was enough of it in the country awaiting secure investment. In Ranade's view, what was wanting was the financial organisation to adjust the capacity of the one to the wants of the other and to make both work in a spirit of harmony and co-operation. Ranade's plan was 'to bridge the gulf which separates the saving few from the producing many' in a way which commanded attention. He pleaded for an Institute on the model of the Boden Credit Institute²² which acted as an intermediary between the borrower and the lender; while procuring for the borrower easier terms and teaching him self-reliance and freedom, it favoured the lender by offering its own guarantee for the money he advanced to the borrower through its agency. These facilities would greatly help the prosperity of all classes in the country and lower the rate of interest all around. The principle of all such banks which made advances on real property was to interpose the bank under direct system of lending. 'Creditors exercise a moral tutelage or domain over the debtors who sink in dignity. The relations between a private debtor and a creditor have a tendency, in course of time, to develop mutual misunderstanding and bitterness'.²³ Ranade believed that the emancipation of the population from the source of moral degradation by the interposition of banks had proved of the highest value as an agency of the education of the people in the best virtues of citizenship.

Ranade's ideas on employment could be best summarised in the following words²⁴ which he quoted with approval. Ranade believed that 'production of wealth depends on labour and productive labour depends on the labourer finding his tools - that

19. Ranade's *Essays on Economics* - p. 309.

20. Ranade's *Essays on Economics* - p. 327.

21. Ranade's *Revival and Reform, Tracts of India* - p. 13.

22. Established in 1873, in Hungary.

23. Ranade's *Essays on Economics* - p. 58.

24. Extracts from Mr Laing's "A Modern Zoroastrian" quoted by Ranade in his "Essays on Economics".

is, employment at which he can work'. A labourer who could not find work at living wages was worse than a non-entity: Ranade would consider him as 'a negative quantity as far as the accumulation of wealth is concerned'. On the other hand, every workman 'who finds work, even if it may not be of the ideally best description, is a wealth producing machine'. Ranade understood the essential relation between saving, investment, and employment, when he said: 'what he (the labourer) spends on himself and his family gives employment to other workmen and the work must be poor indeed, if the produce of a year's labour is not more than the cost of a year's subsistence. The surplus adds to the national capital'. The first problem for a new or backward country, according to Ranade, was to find 'a fair day's wages for a fair day's work' for as many hands as possible. The problem of making that employment the most productive possible was a secondary one to Ranade, which, he thought, 'will solve itself in each case by actual practice rather than by abstract theory'.

In order to secure 'the maximum of employment', Ranade thought that the employment 'must be varied'. All are not fit for agricultural work, and even if they were, he thought that if the conditions of soil and climate favoured large estates and sheep or cattle runs rather than small farms, a large amount of capital might provide work for only a small number of labourers. On social and moral grounds also, apart from dry considerations of political economy, Ranade thought that progress, intelligence and a higher standard of life were more likely to be found with large cities, manufactures and a variety of industrial occupations than with a dead level of a few millionaires and a few shepherds or of a few landlords and a dense population of poor peasants.

11. Population.

Most of the peculiarities of the Ranade plan of economic regeneration of India owed their origin to the author's concern for the average farmer and worker. Ranade had a very true perception of the bearing of our population on economic progress. He suggested well-planned and state-directed schemes of internal migration. No private individual could suggest detailed schemes in this respect. A redistribution of population so as to spread it more suitably to the resources of the various regions of the country was an integral and in fact a preliminary plank in his national planning. Alongside of internal migration, Ranade also laid great stress on an emigration policy. By its favourable geographical location in the centre of the Eastern hemisphere, Ranade thought that India could claim Mid-Eastern countries, East and South Africa, the Southern and Far Eastern Islands, as the legitimate fields of Indian expansion. In many of these parts, Indian influence had spread in the hey-day of Hindu civilisation and even in later times Indian trade and colonisation had reached them. But instead of the tolerated role of the supplier of unskilled labour, Ranade desired that Indians should play the role of systematic colonists, as their forefathers had done before. A well-directed, subsidised and regulated emigration was the first and immediate step that must be taken towards a solution of the population problem of India. A planned population policy led up to a more or less detailed plan of agricultural and industrial progress. He wanted very much, like the German economists of the historical school, a balance between Agrarstaat and Industriestaat, and, more broadly, between rural occupations and urban occupations.

12. His Comments on the System of Territorial Division of Labour.

The orthodox economists assigned to the backward torrid zone regions of Asia the duty of producing raw materials and claimed for the advanced European temperate zone countries the work of transport and manufactures as a division of labour in production which was fraught with the highest advantage to all and was almost a providential dispensation against which it was foolish to rebel. Of course, as far as the natural advantages of climate and situation forced our hands, economically backward races must submit to such an arrangement, but it was fairly open to the question whether there was any such inevitable necessity which justified a line of

separation which had a tendency to accentuate natural deficiencies and make them a source of permanent weakness. Ranade argued:

1. In the first place, the torrid zone people might fairly appeal to past history, when their skilled products found a ready market in temperate kingdoms and excited such jealousy as to dictate prohibitive sumptuary laws both in ancient Rome and modern England.
2. They might also urge that the natural fitness of things required that the manufactures should spring up where the raw materials grew and where, besides, there was demand for the manufactured produce, rather than the bulky goods should be transported many thousands of miles over land and sea and reconsigned the same way back.
3. Differences in favour of temperate regions were all modern growths due to the employment of steam machinery and the abundance of cheap iron and coal. This was a real advantage and had to be faced, but if it could be faced, there was no natural incongruity in an arrangement by which industry would return to its ancient home with a double saving in time and cost.
4. Neither Adam Smith nor John Stuart Mill recommended absolute freedom in such matters. Smith was a 'fair trader' and Mill distinctly recognised an exception to the general rule of free trade, where time was required to see whether new industries were not adapted to the natural resources of new countries. Ranade drew attention to the controversy between Blaine (a financier) and Gladstone which chiefly turned upon this point. Blaine contended that in a large continental country like America with all shades of climate and soil and position, the conditions of the problem were different from those of an isolated small territory like England. The Australian colonies also justified their departure from the orthodox policy on this same ground. India might fairly claim the benefit of the experience and practice of these self-governing communities and demand breathing time.
5. It was further to be noted that such a division of production, if permanently stereotyped, consigned Asia to an industry which was under the bane of the Law of the Diminishing Returns while Europe appropriated to itself those forms of industry which were not subject to any such law. The orthodox view thus condemned the poor to grow still poorer and helps the rich to become richer - 'it giveth much to him that hath, and taketh away from him that hath not the little that he hath'.
6. Lastly, people forgot that the agricultural industry in the torrid regions had to work under the disadvantage of an uncertain rainfall and suffer from famine visitations, which, when they came, paralysed production and condemned millions to violent or slow death. A due co-ordination of the threefold forms of industrial activity, even if it be not immediately most advantageous to individuals in any one period, was a permanent national insurance against recurrent dangers and as such was economically the most beneficial course in the interests of the community.²⁵

The point noticed above had reference chiefly to foreign trade. In domestic interchange also, the same law operated, and every nation which desired economic advance had to take care that its urban population bore an increasing ratio to its rural masses with every advance it sought to make. John Stuart Mill had expressly laid down that no agriculture could be really productive which was divorced from a neighbouring non-agricultural market represented by thriving towns and cities. Under indigenous rulers, there was a sort of rude adjustment made in this direction, when the courts of the petty sovereigns afforded so many centres of urban activity in industries which patronised the court and its dependents. Mill suggested that in the absence of near markets, the next available substitute was a large export trade to foreign countries. This substitute could not, however, be accepted as really answering the purpose in view. The progress of ruralisation in modern India meant its rustification, i.e. a loss of power and intelligence and self-dependence and was a distinctly retrograde move. The growth of the sea-ports and of the few military and railway stations was not enough to counterbalance the enormous loss

that had been inflicted by this retrograde movement. Every class of artisans, the spinners, weavers and dyers and the oilmen, the papermakers, the silk and sugar makers, and metal workers who were unable to bear up to western competition, resorted to the land, left the towns and went into the country and were lost in the mass of helpless people who were unable to bear up against scarcity and famine.

A critical estimate.

The then fashionable *laissez faire* philosophy and abstract method would have given support to that comprehensive policy of state intervention in economic matters which was the ideal of Ranade and his school in India. His problem was how to overcome the authority of the classical school which was arrayed against their views. Ranade solved that problem by appealing to the authority of the German Historical school, of Carey and the American school. He also invoked the authority of Sismondi who had pronounced the view that the true object of economics was the increase of national happiness (not of national wealth) and who advocated government intervention to secure the object. Ranade invoked the authority of all economists who 'advocated the State regulation of industry and asserted the doctrine of relativity as being an essential factor of all economic theory'. It was an age when Herbert Spencer's seven limitations of State functions still held the field - at least in India - and it had on the whole the support of the entire classical school behind it. In Great Britain, no doubt the decade 1870-1880 marked a weakening of the forces of orthodoxy and 'for a time economics was a much discredited science'. But in India the authority of the classical school was still unshaken and Ranade could assail it only by showing what a number of authorities German, French, Italian and American he could marshal against it. Ranade did not quote on his side the opinions of the socialists though for fully half a century before his time, they had been advocating the extension of the State functions.

Ranade did not unduly stress anyone of the authors and skilfully avoided their mistakes. It was to the credit of Ranade that he furnished the true rationale of the constitution of national political economy. He made the relativity of the economic doctrines and precepts the pivot of his argument in favour of the idea of a national political economy. He then proceeded to show that in the case of India, the strength of the force of competition was noticeably limited, the strength of custom and other regulations was much more greater, the mobility of labour and capital was comparatively less, while the rigidity of wages and profits was considerably greater. It was on these concrete substantial and scientific grounds that he rested his case for an 'Indian political economy'. Much as he admired List's 'National System', he showed no inclination to follow the latter in his extremist objectives such as the overthrow of free trade principles of the classical school on the theoretical side and the overthrow of the commercial supremacy of England on the practical side.

If List was the economist of the German industrial transition, Ranade was the economist of a similar transition in India. India in 1890 was almost in the same stage of industrial development as was Germany in the thirties. The agricultural cum-handicraft stage was the general condition, and the seeds of industrial capitalism had just been sown. The jute mill industry was rising on the banks of the Ganges. In Bombay, Nagpur and Ahmedabad, cotton mills were growing up. Paper mills had commenced working at Bally and Titaghur and the 'pioneering attempts' in manufacturing iron and steel had roused hopes in Ranade's mind. Dr Watt's Report on steel production gave scope to ambition and Ranade realised that the new turn could be made by active direction and help from the State.

He realised very clearly the difficulties. The nascent stage in industrial development in Germany began in the midst of obstacles and resistance from outside and List's scheme was accordingly devised so as to be able to overcome and surmount these difficulties. It was Ranade's belief that the external resistance to the economic development of a single country naturally increased in direct proportion to the degree of development reached in other countries. India, therefore, found

this resistance greater than that experienced by Germany in 1841, which in its turn found the resistance to its own progress much greater than that experienced by England. The main resistance that England had to face in the early stages consisted of hindrances to free movement of resources and finished products and it was realised by English economists that all difficulties would disappear if hindrances to free movement were removed. Even in spite of this, however, actual 'liberalisation' came in England only when Huskisson became the President of the Board of Trade. The resistance that Germany had to face was the result of the competition of the developed industries of England and naturally protection was devised to neutralise this difficulty. India suffered from a much stronger, negative pull on account of foreign competition, lack of initiative among the people, vested interests of the British commerce and also the policy of the Government. Often it was argued that what was good for England in 1830, was good for India in 1890. Ranade had, therefore, to be almost an eclectic in prescribing remedies for securing the progress of India in the direction of Industrial Capitalism.

The needs of the newly growing industries of England made the English classical writers free traders. The same needs made List a protectionist and Ranade a believer in planned development. In essence, therefore, List and Ranade were both 'national' economists. The accusation of Smith by the Germans that he was a cosmopolitan was baseless; the cosmopolitanism of Smith was dictated by the national interests of England as much as the protectionism of List was shaped by the requirements of German capitalism. The laissez faire that England extolled was not simple inaction, but inaction with a view to making capitalism work. This purposive element in the policy of laissez faire made it as effective a policy of state action as protective tariffs or mercantilist control.

It was this essential similarity between the basic position of the classical writers on the one side, and List and Ranade on the other, that explained another difficulty. The whole of Ranade's writings was characterised by a singular lack of appreciation of socialist ideas. The case he stood for was a case for economic justice to the Indians as a body, and not one for justice between the classes. The provisions of the Bengal Tenancy Bill giving rights to the ryots against the Zemindars were criticised summarily by him with the remark that those proposals could 'only be justified on socialistic or communistic grounds'.²⁶ It was even more surprising that a man like him should speak of Communism and Mormonism as ideas of the same order.²⁷ His own positive ideal was one which incorporated 'high and petty farming, with an upper ten thousand of holders of very large landed estates and a vast mass of peasant farmers', and 'this mixed constitution of rural society' was regarded by him as 'necessary to secure the stability and progress of the country'.²⁸ In the same manner he gave his entire attention to the development of industries and commerce and entirely ignored the effect that capitalism would have in creating injustice between different social classes.

Ranade wrote at a time when capitalism had come to be challenged by quite a number of disillusioned thinkers. He seemed to have given some attention to writers like Sismondi, but the ideas of the nineteenth century socialists seemed to have been entirely lost in his enthusiasm for the capitalistic transition. Marx's writings had at that time come to be widely read and at least there were Henry George and the Fabians whose denunciation of unrestrained capitalism ought to have had some influence on him.

The reason that might explain the failure of Ranade to realise the inevitable effects of industrial capitalism was to be found in the same fact that blinded List as late as 1841 to these evils. The eyes of both List and Ranade were dazzled by the first fruits of the new industrialism and they both agreed in expecting that

26. Ranade's Essays on Economics - p. 308.

27. Ranade's Essays on Economics - p. 313.

28. Ranade's Essays on Economics - p. 309.

the capitalistic transition would bring a millenium for all. This capitalistic transition was as great a revolution as any could be; and it was natural that the philosophers of this revolution would expect more from it than would appear warrantable to one who made a study in retrospect. It was this that explained why the English classicals of the nineteenth century were not influenced by any consideration about justice between classes or why List was not influenced by Sismondi's 'Nouveaux Principes' published in 1819 or Proudhon's 'Que'est-ce que la Propriété', which appeared at the same time as the 'National System of Political Economy'.

It was the same enthusiasm about the expected benefits of the industrial revolution that dazzled the eyes of Ranade and made him blind to the repercussions that might follow. In a world lit by brilliant sunlight he could not discern any black specks or spots. He believed in industrial capitalism with the passion of a pioneer and the zeal of a reformer which made him regard all criticism of the new industrial system as attempts to ruin a good cause.

To him the only problem was the problem of development and this development in itself appeared so desirable to him that he did not consider it worth while to take the possible evils into consideration. He completely brushed aside all pessimism and tried to create a public opinion and induce a State policy that would make industrialisation possible. It is noteworthy that in his enthusiasm for industrial development, he allowed many of the vital economic questions of his time to escape his notice. He was writing at a time when the silver situation had come to a climax and the Government was looking for heroic means for saving the Rupee from depreciating further. Ranade was not apparently much interested in these currency problems - nor in the problems of banking and of public finance. Schemes for a Central Bank of India had been coming off and on throughout the second half of the nineteenth century, but Ranade seemed to have taken little interest in all this. In course of two decades, preceding the writing of his essays, the financial arrangements between the centre and the provinces had been entirely remodelled, but these could not rouse Ranade's interest. The first Factory Act had been passed in 1881 and the second a decade later; the Land Improvement Loans Act had come in 1883 and the Agriculturists' Loans Act in 1884; the new Guarantee system in respect of railway construction had been adopted in 1879; in 1886 a general income tax had replaced the license tax of 1877-78; all these raised important problems but they did not get a place in Ranade's thinking. To Ranade, all these could not matter at all, if only nature's power could be harnessed to produce more and more wealth; if skill was given opportunity to triumph over ignorance, if people could be shifted from rural occupations to urban occupations, if colonies could be established abroad for Indians, and if markets were found outside for the products of India's new industries. His entire enthusiasm was directed towards extolling the Industrial revolution of India and he could not spare any share of this enthusiasm for any problem that did not appear to him to be directly connected with a speedy development of industries.

In Ranade's survey of the problems of industrialisation, attention was focussed on inquiries in the field of welfare economics. From one point of view his writings in this respect might be considered as providing a theoretical basis for the work of a planning Board seeking to rationalise the planning system of a State-controlled economy. He constructed a conceptual framework which might serve two purposes. On the one hand, it posed a series of questions on ends, i.e., on saving and investment, communal consumption and income distribution, which might assist the authority to formulate a conceptually satisfactory scale of values to guide the economy; on the other hand the analysis established the implications of the given ends. These implications were the optimum conditions. The establishment of these implications would seem to be a pre-requisite for the construction of a planning scheme which might approximate the given ends in practice. How useful Ranade's particular conceptual framework might be, however, would depend on whether the particular questions posed were the right ones for the planners to decide. Ranade also reckoned with the possibility that there might not be any one set of questions which was right for any length of time. Ranade might have been inadequate

in formulating his economic model, but he gave a synthetic body of ideas consistent with one another and a well-defined line of approach, and he left suggestions that are even to-day capable of being worked up to yield very valuable conclusions.

Ranade believed that the prosperity of a nation was great not in proportion to the accumulation of wealth, but in proportion to the accumulation of the productive forces. By productive forces he meant the causes of wealth which assuredly must be something very different from wealth itself. The laws of the State and its public institutions, science, arts, and culture, means of transport, were, according to him, bountiful sources of productive force.

Ranade believed that the free trade doctrine was untenable in Indian conditions. He did not believe that protective duties should serve only to establish a monopoly for the benefit of industrialists at the cost of the nation. According to him, the infant industries that were fostered by protection provided, in course of time, energy to the entire aggregate of the national industry. He believed in the mutuality of economic life, in the interdependence between agriculture and large-scale industry. Large-scale industry was a customer of agriculture and, in this respect, Ranade came to the same conclusion as Thünen and Friedrich List of Germany in the belief that a large-scale enterprise close at hand was the most natural patron of agriculture. For Ranade, however, free trade remained an ultimate ideal. But before a free trade system could work in a natural way, the backward nations must advance in industrial development until they stand on an equal footing with the most advanced ones. Thus, though an advocate of protection, Ranade accepted the theoretical kernel of the free trade doctrine which he considered only realisable between nations on the same economic level and, therefore, able to compete on equal terms. An agricultural state surrounded by highly developed industrial states could not possibly establish thriving industries. He realised the utter need for experienced entrepreneurs, customary markets, trained workers, an abundance of capital seeking investment, and an excellent transport system in underdeveloped countries like India as preconditions for economic development. On the other hand, he held that it was unquestionably an error to suppose that the English and other European nations were pre-destined to undergo far-reaching industrial expansion. If only for the reason that the nations passed through various phases of economic evolution and passed through them at different times, it seemed to Ranade absurd to suppose that one and the same economic principle could be applicable at all times and to all people.

The modern Indian economics might be said to mark its rise in the writings of M.G. Ranade. From the time when he began to publish papers on economic subjects in the Journal of the Sarvajanic Sabha in 1878, Ranade linked Indian Economics to the 'one question' - the problem of Indian poverty. From Ranade onwards Indian Economics set out by being a systematic study of social welfare in its material aspects.

Ranade clearly saw that Indian economics must be studied historically and inductively and that it was not sound procedure to build a system of dogmatic conclusions upon the postulates of individual self-interest and unrestricted competition. Acknowledgement of relativity and admission of the claim of collective welfare over individual interests had become the principal features in which the newer economics differed from the older school. In this way Ranade showed that the dogmas relied upon by those who opposed his solution of the poverty problem were now discredited by the modern science. Therefore, the dogma of the territorial division of labour could not be appealed to in order to confine India to the production of raw materials and to bar the way to a diversified industry; the dogma of laissez faire could not be appealed to prevent whole-hearted government action for the development of industries. The dogma of unearned increment could not be the reason to prevent reform of the land revenue system; and the dogma of the limitation of the State's functions to law and order could not be appealed to so as to hinder the State from taking care of national needs in all matters when other means were likely to be less effective and economical.

Before all, Ranade was of outstanding importance in the history of Indian economic thought for his method. He was little concerned with systematised investigation rigidly confined to the theoretical plane. By making his views on the exchange of goods between various national economies on the State of economic development in each, Ranade advanced beyond the atomistic outlook of the English classical school. Methodologically, this procedure was rounded off by the introduction of the concept of the concrete cultural community and institutionalism as contrasted with the idea of unrestricted competition, free enterprise and individualism. In addition to this achievement, Ranade's work possessed a deeper significance which rested on its social philosophy. He gave the first systematic statement of the disharmony of social interests and stressed the welfare of the collectivity over that of the individual. His economic analysis demonstrated an opposition and conflict of social interest. Ranade himself did not attack the landed interest; opposition to the landlord was still not the supreme aim, which it was to become in later days. He lived in, and thought in terms of, that transitional nineteenth-century society in India which had its industrial capitalism, but in which industry was not sufficiently developed to be pre-occupied with capital accumulation and large-scale industrialisation. Capitalist production was the foundation of the new society which Ranade visualised for India; everything else rested upon it.

The importance of Ranade was that of a very great scientific pioneer. He succeeded more than anybody else in India in isolating the chief categories of Indian economic life. He left to his successors many unsolved problems, but he had also indicated ways in which they might be solved. Thus not only early Indian economic thought, but modern Indian economics with its interest in problems of economic development could claim Ranade as its founder.

Chapter 4

Gopalkrishna Gokhale

Gokhale was born in Kolhapur. He took his B.A. in 1884 and was admitted to the Deccan Education Society. He joined the Bombay Fergusson College where he lectured on English literature and Mathematics. Later he also occupied the Chair of History and Political Economy. In 1887, he became the editor of the Journal of the Sarvajanic Sabha of Poona which performed the function of forming public opinion especially on questions of Indian Finance and Indian Administration. In 1897, he visited England to give evidence before the Welby Commission on Indian expenditure. In 1900, he was elected member of the Bombay Legislative Council. In 1902, he became a Member of the Viceroy's Executive Council. He was elected President of the Indian National Congress in 1905. He died in 1915.

1. No economist in the period under consideration was more subtle or colourful than Gopalkrishna Gokhale. He was a classicist by training; a mathematician by inclination; an economist and statistician by necessity. He was, moreover, unquestionably the truly cosmopolitan economist of his generation. But in spite of all his erudition and originality, we must consider Gokhale - as he considered himself - a disciple of Ranade. Wherever Ranade is silent, Gokhale must be assumed to speak. An excessive veneration for Ranade and, for that matter, for all the 'high authorities' had a heavy incidence on his own theories. But this intellectual humility, for it was nothing else, did not make his pronouncements slipshod or sketchy. Whether it be the theory of money or rates of interest or Indian exchange in particular, or general reflections on economic and financial policy, Gokhale showed himself to be a supreme craftsman of exposition. Nor was Gokhale a blind imitator of his masters. Almost all his pronouncements on economic affairs had a modern ring about them. Gokhale's reading in the literature of economics and finance was wide and up to date and enabled him to formulate definite principles of economic reform and policy. His advocacy of financial and economic reform bore fruit as much as the earnest and persistent pleading of an Indian member of the Viceroy's Council at that time could bear it. The finance statements and the proceedings of that Council are ample testimony to the fact that he was the greatest authority on Public Finance of his time in India.

2. The Background:

The period under review was marked by a new-born popular enthusiasm and witnessed the agitation for reform started by the Indian National Congress. From the point of finance, it was a time of great stress and additional taxation. Lord Lytton's (1876-'80) regime was marked by widespread famine, the prosecution of an aggressive military policy on the North-Western Frontier and by the consequent financial embarrassment, aggravated by a fall in exchange rate. In 1877-78, famine still raged in South India. 'During the following three years the Government had to meet the heavy expenditure of the Afghan War which amounted to over 16 crores ¹, exclusive of a contribution made by England, while in 1878-79, there was a further fall in exchange'. ² For three consecutive years, there were heavy deficits. But with the advent of Lord Ripon as Viceroy came a brief spell of financial prosperity. The revenue jumped up with a bound and when the Provincial Settlements were revised in 1882-'83, assignments to provincial governments were increased and taxation was reduced in the United Provinces, to the extent of 24 lakhs. But a wave of deficits and depression came on again and enhancement of the burden of taxation followed. In 1884, the finances were in practical equilibrium but two of the following years showed a heavy deficit and in the remaining two, a small surplus was secured only by the suspension of the famine insurance grant. The Madras Famine of 1877 led

1. All figures are in Rupees.

2. Imperial Gazetteer of India, Vol. IV.

Lord Lytton's government to create, by imposing new taxes, a Famine Relief and Insurance Grant. The object of the Grant was declared to be the provision of an annual surplus of a crore and a half for Famine relief and Famine insurance. To the extent to which in any year the amount was not spent on relief, it was to be spent solely on reduction or avoidance of debt. A pledge was given that the proceeds of the new taxes would not be expended for any other purpose than the one stated. And yet the grant was often suspended for meeting deficits. Lord Dufferin (1884-'88) was the Viceroy and the policy of the Government of India as of the Government in England was dictated by a spirit of imperialism. The financial situation of the time was vividly brought out in the following passage: 'In 1885 occurred the Panjdeh incident on the Russo-Afghan border and the conquest of Upper Burma. The imminent danger of war with Russia involved an outlay on military preparation of two crores and the Burmese war cost 60 lakhs. In neither case did the matter stop with initial expenditure. The progress of a great European power towards the borders of India made it necessary to reconsider the military position. The army was increased and larger sums were spent during several years on strategic railways and fortifications and other works on the frontier. The restoration of order in Upper Burma and the administration of the province also entailed a large net outlay until after several years the newly acquired territory began to develop and its revenues to expand. The arrangements so carefully elaborated during Lord Lytton's Viceroyalty broke down under the strain of this accumulated expenditure and recourse was had to fresh taxation. In January 1886, the license was converted into a general tax on non-agricultural incomes in excess of Rs 500 per annum and in 1887-'88, it was found necessary to enhance the salt duty from Rs 2 to Rs 2-8-0 a maund and to impose an import duty on petroleum'.³

This was the time when a new spirit vibrated through the class of educated people in the country. The first session of the National Congress was held in Bombay in December 1885, in the beginning of which year Gokhale had joined the Deccan Education Society of which Ranade was also a member. This very first Congress passed resolutions on the growth of military expenditure and on fiscal reform and gave a stimulus to the discussion and agitation of public questions. Gokhale appeared on the Congress platform for the first time in 1889 and his interest in economic problems began to grow. It would be noted that the question of military expenditure ran like a theme throughout Gokhale's criticisms of the Government policy and his principles and policies of public finance to which we would now address ourselves.

3. Gokhale's views on taxation and the revenue system:

(a) The Salt Duty Question:

At this time political and financial reform was in the air. The appointment of the Finance Committee of 1886 with Sir C. Elliot as the President and Mr Ranade as one of its members was announced by the Viceroy to enquire into expenditure with a view to devising economies. The recommendations of the Committee could not enable the government to face the financial situation which the conquest and annexation of Burma created. Burma proved, in the words of the then Secretary of State for India, 'That financially upper Burma has been so far a disappointment' and he candidly stated that the annexation had 'thrown on the revenues of India a heavier charge than was expected'. Mr Westland, the Finance Member, was confronted with a deficit of 1.5 million pounds and Lord Dufferin's Government decided to fill up this void in the national revenues by enhancing the duty on salt. There were other ways open but they were examined and rejected as unsuitable. It was felt that by economy and retrenchment a sufficiently large saving might have been secured and if that were not enough, the income tax might have been raised or some tax falling upon those who were able to bear the burden might have been imposed. In 1886, at the time of the imposition of the income tax, Sir A. Colvin and Lord Dufferin had

3. Imperial Gazetteer, Vol. IV.

pledged against increasing the burdens of the mass of the population and in favour of taxing the rich and the well-to-do. Assurances had also proceeded from high quarters that there would be no further addition to taxation in India. But inspite of all this, Mr Westland, the Finance Member thought the enhancement of the duty on salt was the only practicable and the least objectionable source of revenue that could be tapped by Government. The increase was expected to bring in an extra-revenue of 16 million rupees. No tax in India had been more strongly objected to as oppressive to the masses than the duty on salt which was a necessity of life with the poor. And the first measure of relief to the tax payer, Gokhale urged, was the reduction of the duty.

Though the commercial and other interests would be up in arms against any proposal to increase the burden of taxes of the wealthy, they were indifferent as to the imposition of a burden upon the shoulders of the poor classes. Before 1892, there were no elected representatives of the people in the legislative councils and there were consequently no serious budget debates. The peoples' views did not find adequate expression in the Councils and in the case of the enhancement of the salt duty in 1881, even a formal assent of the Viceregal Council was not necessary. The Indian Salt Act of 1882 had conferred upon the Executive government of the day an extensive and enormous reserve of taxing power under legislative enactment by which it could at its own will and pleasure at a moment's notice add to its current revenues what was required. As Mr M.V. Joshi wrote on this question then, 'The course adopted by the Government is that of working along the line of least resistance. They dare not touch the import duties; they dare not ask the English Government to bear the part of the expenditure incurred to keep forward English interests; they will not reduce expenditure lest the services rebel; they, therefore, come down upon the silent millions who cannot speak and levy a poll tax of 2 annas per head by raising the duty 25 per cent'.⁴ This measure created great dissatisfaction in the country and a reduction of the salt duty was pressed upon the attention of the Government from year to year till they thought it fit to grant the relief in 1903 when the surplus in the overflowing treasury left no excuse for withholding the reforms. At the Calcutta session of the Congress in 1890, Gokhale spoke in support of a resolution pleading for a reduction of the duty on salt.

(b) The cotton Duties:

Before the Mutiny, there was a general import duty of 5 per cent on all commodities coming into the country. It was raised during the next few years in view of the heavy expenditure the Government had to meet. But very soon the tendency commenced towards lowering of the tariff so that by the beginning of the last quarter of the 19th century the import duties stood at 5 per cent. About this time, however, 'the question of abolishing the customs duties began to be discussed. The Government of India desired to give the fullest play to free trade principles and the Lancashire Cotton manufacturers, finding a serious competitor in the growing Indian industry, were pressing for the removal of the artificial advantage given to the latter by the 5 per cent duty'.⁵ The House of Commons passed at the instance of the Lancashire manufacturers, a resolution in 1877, to the effect that 'in the opinion of the House, the duties now levied upon Cotton manufacturers imported into India, being protective in their nature, are contrary to the sound commercial policy and ought to be repealed without delay, as soon as the financial condition of India will permit'. Lord Salisbury who was then the Secretary of State, pressed upon the Indian Government the urgency of a repeal of the import duties on Cotton goods and Yarn on the ground that they had a protective effect, and Lord Lytton's Government was prepared to submit to all the British demands unconditionally, though they were strongly opposed by high officials and the public in India. In 1878 and 1879, certain duties on cotton imports which were supposed to have an unfavourable effect upon the Lancashire industry, were removed. 'The duty was actually repealed when Southern India had not yet recovered from the Madras Famine of 1878, when new

4. M.V. Joshi, quoted by Kale, "Gokhale and Economic Reforms" - p. 22.

5. Imperial Gazetteer of India, Vol. IV.

cesses on land had recently been added to the land revenue; when the Famine insurance fund created by special taxes had disappeared; when the estimated budget showed a deficit; and when troubles and a vast expenditure in Afghanistan, brought about in quest of a scientific frontier, were impending'.⁶ It was not wise to have sacrificed a large source of revenue especially at a time of falling exchange, recurring famines and growing military expenditure. When financial prosperity temporarily returned under Lord Ripon, the Government abolished the remaining import duties in a fit of generosity. For the twelve years 1882-1894, no fresh import duties were levied, except a small duty on petroleum in 1888. But the falling exchange and rising military expenditure once more forced the Government to resort to fresh taxation. In 1894, they were confronted with a deficit of about 20 millions and as the other method of filling up the void were considered as impracticable (The Herschell Committee having pointed to the customs as the only source available), a duty of 5 per cent ad valorem was imposed on all articles with a few exceptions. Cotton yarns and fabrics were, of course, exempted to satisfy the free trade conscience of Lancashire interests. To the popular outcry against this measure, Lord Elgin, in passing the Tariff Act in March 1894, threw out a hint that it was not a final arrangement. In December of the same year, a fresh Act was passed subjecting Cotton fabrics and yarns to a 5 per cent duty, but propitiating Manchester, at the same time, by imposing a countervailing excise duty of 5 per cent upon Yarns produced in Indian Mills which, it was thought, would compete unfairly with those of Lancashire. The British manufacturing interests were not, however, satisfied and they clamoured for more favours. Lord George Hamilton who had, on the accession of the Conservatives to power in 1895, become Secretary of State for India, urged the Indian Government to modify the Tariff so as to give Lancashire no ground for complaint. Lord Elgin's Government, accordingly introduced into the Viceregal Council, next year, the Indian Tariff Amendment Bill and the Cotton Duties Bill, which imposed a 3½ % duty on all woven goods and exempted all yarns but which still subjected all cotton goods produced in Indian Mills to a 3½ per cent duty. The measure met with strong opposition from all sides and was condemned by officials and non-officials, Europeans and Indians. 'As an instance of fiscal injustice, the Indian Act of 1896, is unexampled in any civilised country in modern times'.⁷ The excise duty remained as a lamentable memorial of the subordination of Indian interests to those of Lancashire and of the fiscal dependence of the Government of India on the will of the Secretary of State whose policy was swayed by extraneous considerations and out-dated theories.

(c) The land revenue problem:

One could not expect to have in India a uniform system of land tenure. As the various parts of the country came under British rule, the method of assessing the revenue to be taken from landlords and cultivators, was fixed at different times and in different ways. The vicissitudes of fortune of the holders of land gave rise to various titles and claims and it took generations for the Government to fix them definitely. While in Bengal and Northern parts of Madras, the State recognised proprietors of land whose revenue was permanently fixed, in other parts of the country the demand of the state was to be revised periodically and the revenue was to be taken from the cultivator directly, without the interposition of a middleman. At one time the idea was widely entertained by high officials that the system of permanent settlement which was introduced by Lord Cornwallis into Bengal, might, with advantage, be extended to other parts of the country and that the state might deal here with a Zemindar as in Northern India. Some looked upon the Bengal system as ideal and recommended its extension to other parts; others would reserve to the State the power to raise the revenue whenever it deemed fit to do so with a view to sharing the unearned increment - the increase being brought about by the general progress of the community.⁸ There were others, however, who

6. R.C. Dutt, "An Economic History of India" - p. 237.

7. M.V. Joshi, "Gokhale and Economic Reforms".

8. S.C. Roy, "The Permanent Settlement in Bengal".

held that the permanent settlement was a mistake, which had lost to the state, an increasing source of revenue and ought not to be repeated elsewhere. It was also urged that in dealing direct with the cultivator, the state in its capacity of landlord, would confer a boon upon him by preventing a large part of his produce from being intercepted by a middleman Landlord. The various systems of land tenure and land revenue settlement, were thus steadily evolved and definiteness and permanence were imparted to them. There was no question as to the right of proprietorship of the Zemindars in Bengal, Madras and elsewhere as it had been definitely recognised by the Government. That right in the case of Ryot-wari parts was equally indisputable; but advocates of state-landlordism often had doubts about it.

Some people neither wanted a permanent settlement nor a revision of settlement at short intervals. They would only eliminate from the temporary settlements all elements of uncertainty and inquisitorial enquiry. This principle inspired the despatch of Lord Ripon of 17th October 1882. 'His object was to give the agriculturist an assurance of permanence and security, whilst not depriving the state of the power of enhancement of the revenue on 'defined conditions'. Men like Canning and Lawrence had held that the land revenue should be fixed for ever, leaving to the people of the country all future increase in the profits of agriculture. Other administrators had held that the state should claim an indefinite increase of revenue from the increasing profits from agriculture. Lord Ripon's scheme met with the views of both schools. He left the door open for a continuous increase of land revenue with the increase of prices. At the same time, he offered to the cultivators what was virtually a permanent settlement of the land-revenue as 'represented in produce'.⁹ Lord Ripon's principle was not definitely accepted though the Secretary of State laid down certain rules in connection with assessments. The question was once more raised at the close of the last century by a number of prominent retired civil servants who submitted a memorial to the Secretary of State for India offering five suggestions to make the rules of land administrations definite and clear and more helpful to the Indian cultivator. They urged that (i) the land-tax should not be revised in any province within thirty years of the expiry of a former revision, (ii) where the land-revenue was paid by landlords, the Government demand should be limited universally to one half of the actual rent or assets of the landlords. (iii) Where cultivators paid direct, the revenue demand should not exceed 50 per cent of the value of the net produce and should not ordinarily exceed one fifth of the gross produce. (iv) When revision was made, the assessment should not be increased except in cases where the land was increased in value (a) in consequence of the improvements in irrigation carried out at the expense of Government or (b) on account of the rise in the value of produce based on the average prices of the thirty years preceding such revision and (v) the rate of local cesses on the land tax should not exceed 10 per cent, the Bengal rate of 6½ per cent being a fair one.

Gokhale's views on taxation naturally reflected and followed from his cannons of public expenditure. Here again it was possible to trace an evolution of thought in Gokhale. In his speech on the budget statement in 1902, he sought to anticipate the criticism of an apparent contradiction between his advocacy of both a reduction in taxation and an increase in expenditure by pointing out that both would be possible if military expenditure were cut down. He was against any increase in the level of taxation, which according to him was already high enough. The weight of taxation was, according to him, fixed and maintained at an unjustifiably high level and higher than the circumstances of the country justified. But if it was spending on the nation-building activities of the government, he would not mind increases in taxation. Taxation imposed and earmarked for such purposes would meet with his approval and Gokhale raised no objection to increases in taxation on tobacco and drink or to other taxes if the proceeds would go for financing outlay on sanitation, public health and education.

9. R.C. Dutt, "India in the Victorian Age" - p. 137.

In the sphere of taxation Gokhale's main concern was to lessen the burden on the poor and to make the tax system more equitable as between different classes. As it was, it was too regressive and the burden fell too heavily upon the poor. Nowhere was the burden of taxes on land so heavy as in India, said Gokhale. The poor also contributed the whole of the excise tax, and the salt tax was a great burden. In pleading for a reduction in salt duty, he enunciated a sound principle of taxation well worth noting. 'The soundest and best policy would be to raise an expanding revenue on an expanding consumption under a diminishing scale of duties'. The implication of this principle was undoubtedly far-reaching. It implied that the ultimate basis of all taxation was not the multiplication of levies or their heights but the general level of economic prosperity. Improve the wealth and prosperity of the people and the problem of taxation would solve itself - that was Gokhale's principle.

He was mainly concerned with the reformation of the system of taxing lands in the ryot-wari tracts rather than the introduction of permanent settlement. On the question of permanent settlement, Gokhale's lukewarmness was justified by later developments in public opinion. Few were found to endorse the powerful plea put forward by R.C. Dutt and echoed by nearly all contemporary writers to effect permanent settlement all over India. The Floud Commission in Bengal had driven the nails on its coffin and the zemindary system was regarded as an anachronism under modern conditions where the choice was said to be between peasant farming and cooperative or collective farming.

In pursuance of his general principle of lower taxes, Gokhale supported the removal of cotton excise duties on the ground that the consumers were hit by these duties. Indeed he went so far as to say that 'if it was the case that these excise duties fell on the producers and not on the consumers, I would not stand up here to support their abolition today'. Gokhale here, however, failed to distinguish between the mere incidence of a tax and its effects. Although the incidence of the duty might be on the consumer, the producer was undoubtedly affected adversely by a duty which would either limit his profit or the expansion of his firm.

4. Public Expenditure, Currency System and Financial Reforms.

(a) The Welby Commission⁺ and Gokhale's position vis a vis.

As a result of Dadabhai's endeavours in the House of Commons for financial reforms for India, A Royal Commission was appointed in 1895 with instructions to 'enquire into the administration and the management of the military and civil expenditure and the apportionment of charges between the Governments of the United Kingdom and of India for purposes in which both are interested'. Lord Welby was the President of the Commission and among its members were Sir William Wedderburn, Mr William S. Caine and Mr Dadabhai Naoroji. The last three disagreed with their colleagues and they submitted their own report. The Commission heard four non-official witnesses from Calcutta, Madras and Bombay. They were Messrs. Surendra Nath Bannerje, G. Subramani Iyer, D.E. Wacha and Gokhale. Gokhale was the representative of the Deccan Sabha.

(i) The Majority Report.

The Commission decided to divide its work into three parts and to devote its attention to three different issues, viz., (1) the machinery of the financial control (2) the growth of expenditure (3) the apportionment of charges between England and India. On the first point it came to the conclusion that the financial machinery was on the whole well-organised and that its action was effectively controlled. It compared the British and Indian systems and pointed how the latter was slow moving and suffered for certain drawbacks one of which would be removed if the financial year were changed to obviate revised estimates. The comparative me-

⁺ Report, C.D. 131, of 1900 (one volume) and Minutes of Evidence (3 volumes).

thods of collecting revenues and disbursement were gone into and the relations of the Finance Member to the Viceroy and the Secretary of State as well as his powers were examined. The Commission found a few drawbacks, but was, on the whole, satisfied with the machinery and its working. In England, the auditors of the Nation's accounts were independent of the executive government but on the question of rendering the Indian auditor and the Comptroller-General equally independent, the Commission was divided, the change being opposed by the Government of India on the score of expense. The Commission, however, was inclined to the view that Indian accounts each year be laid before British parliament after being examined by independent Committee. (2) On the second point, the Commission entered on an elaborate enquiry into the growth of expenditure. For this purpose, it started with the year 1861-62 till 1895-96. This period was divided into two parts, the first one of 23 years, (1861-62 to 1884-85) and the second covering 11 years (1884-85 to 1895-96). With the help of figures, the Commission endeavoured to arrive at the normal growth of expenditure and it came to the conclusion that the increase of revenue had been great in proportion to the growth of population and that but for the heavy loss entailed by unfavourable exchange, the revenue could have been larger than expenditure and even provided a balance for reduction of expenditure. The Commission's findings were similar as to the public debt, the cost of the collection of revenue and the apportionment of charges between England and India. Regarding cost, they recommended a small relief to the Indian treasury out of the British Exchequer.

(ii) The Minority Report.

A minority of three members of the Commission disagreed with the majority on certain fundamental points and several of their recommendations. They stated that the enquiry of the Commission into the growth of expenditure was most perfunctory and that it had accepted the conclusions of the official witnesses. Additional burdens which weighed heavily upon the people, such as the enhancement of land-revenue had not been taken into calculation and therefore the figures given in the report were to that extent vitiated. Again, the attempt of the Commission to arrive at normal expenditure was futile as, India not being a self-governing country, there could be no natural adjustment in her case between expenditure and public needs. The people had no voice in the sanctioning of expenditure and the raising of revenue and the real and urgent needs of the country were not met for want of funds. Under these abnormal conditions, the test applied by the majority of the members of Commission was fallacious. As to the apportionment of charges between England and India, they had unnecessarily restricted the scope of the enquiry to a few minor matters. The objections of Mr Dadabhai who had protested against this procedure were not paid heed to and no importance was attached to his evidence. The minority report acknowledged the poverty of the people and the impossibility of taxing them further. Salvation, therefore, lay, in its view, in economy and retrenchment which could be achieved largely by the substitution of Indian agency in the place of the existing costly European agency. Simultaneous examinations in England and India for recruitment of people for Indian Civil Service, approved by a Committee of the India Office in 1860 and by a resolution of the House of Commons in 1893, must be fulfilled. A larger employment of Indians in the civil and military services would be productive of economy, efficiency and good government. Coming to the heads of enquiry, the report stated that there was no effective check upon the government of India. An independent audit like the one proposed would be of no advantage as the House of Commons did not vote the Indian Budget. The House of Commons took little interest in Indian affairs except when it affected Lancashire, and the side of the Indian tax-payer was not placed before the parliament. It, therefore, suggested that the House of Commons would appoint a Committee to scrutinise the financial condition of India. It recommended that (1) the non-official members of the Viceregal Council should be made more directly representative of the people (2) that the Council should vote in the budget and (3) that Indians should be nominated to the India council. Proceeding to consider the position of provincial finance, the minority report drew pointed attention to the fact that a lion's share of the revenues of our country was absorbed by the imperial government. The provinces did not enjoy financial independence and there was no stability or continuity in their financial arrangements. The sense of responsibility was not deve-

loped in the provincial governments and the original object of decentralising finance was frustrated. The minority, therefore, recommended a scheme, which had been put forward by the Finance Committee under which there would be no divided heads, which would be either wholly imperial or provincial. Provincial surpluses were to provide for central deficits before increased expenditure could be undertaken by provincial governments. Lastly future growth of revenue was to be equally divided between Central and provincial governments. As to the apportionment of charges between England and India, they should be equitably divided as between two partners and not as between master and dependent. The three Commissioners clearly indicated the defects of the existing financial management and suggested remedies.

The report of the Welby Commission caused widespread disappointment in India. Its recommendations were not calculated to give much relief to this country and the main object of its enquiry so far as the Indian public opinion was concerned was not attained. 'On the other hand the really larger questions of the reduction of the India debt, reduction of the Home Charges and of taxation and reduction of the military expenditure remained untouched. The duty of relieving the Indian taxpayer of the burden of a heavy and excessive taxation remained unfulfilled'.¹⁰

(b) Financial control.

Gokhale maintained that the machinery of financial control in the country was most defective, owing to the fact that while in the United Kingdom and the Colonies, public expenditure was administered under the control of the tax-payers, in India other interests were often deemed to be quite of equal importance and were sometimes allowed to take precedence of the interests of the Indian people. 'Thus we have, first of all, the standing claims of the interests of British supremacy, entailing a vast amount of expenditure, the benefit of which goes to others than the taxpayers of the country'.¹¹ The large European army maintained on a war-footing in time of peace, the practical monopoly of nearly all the higher offices in the civil services by Europeans and the entire monopoly of such offices in the Native army are illustrations of this statement. Large sums from the Indian exchequer have been spent from time to time in the past in the interests of the extension of the British dominion in the East, in many circumstances, even in spite of the protests of the Government of India. It was not only the interests of the English Civil and military services but those of British Commerce and of British commercial and moneyed classes that often prevailed over the interests of India. The frequent subordination of Indian interest to other interests, in Gokhale's opinion, made it all the more imperative that the machinery of constitutional control should provide adequate safeguards for a just and economical administration of the Indian expenditure but it was a matter of regret that nowhere were the safeguards more illusory than in the case of India. The spending authorities in the matter of Indian expenditure were (1) the local Governments (2) the Government of India (3) the Secretary of State in Council. The controlling authorities were the Government of India, controlling the provincial Governments, the Secretary of State controlling the Government of India and the Parliament in theory, controlling all. This was all official control, and real popular control in the sense of control by tax-payers was absent from the whole system. The right of moving resolutions in connection with the budgets had indeed been granted by the Morley Minto Reforms, but it did not go far, as the budgets did not have to be passed by the legislative councils. Parliament exercised little control over the secretary of State for India and, therefore, over Indian expenditure, and the protection which the vigilance of parliament used to accord in the time of the East India Company, was no longer available. In Gokhale's words, 'The position virtually amounts to this, that it is the administration of the finances of one country by the executive government of another, under no sense of responsibility to those whose finances are so adminis-

10. R.C. Dutt, "India under the Victorian Age" - p. 146.

11. Gokhale, "Speeches and Writings", Natesan & Co.

tered'.¹² The result was that millions had been spent on objects which did not advance the welfare of the Indian people, while measures which could have secured the true well-being and prosperity of the people had been very much neglected. The Government of India, constituted as it was then, could not be much interested in economy. Almost all internal administration having been made over to Local Governments under the decentralisation scheme, questions of foreign policy, large public works, and the military questions absorbed the whole attention of the Government of India.

Gokhale was not content with indicating the defects of financial machinery. He suggested remedies, the first of which was that the Indian budget should be passed item by item in the Legislative Council. The second suggestion was to establish a Committee of Control in England which was to have no powers of initiating expenditure but was to take cognizance of all appeals addressed to it by the non-official members of the Viceroy's Council and which might also call for papers of its own accord and exercise general control of the administration of Indian expenditure. The plan did not in any way affect the directive and executive powers of the Secretary of State or the Government of India, but provided only for a reasonable amount of control and was calculated to enable the representatives of the Indian taxpayers who could thus make a complaint in a constitutional manner. The third remedy lay in an amendment of section 55 of the Act of 1858, which enacted that 'except for preventing or repelling actual invasion of Her Majesty's Indian possessions, or under other sudden and urgent necessity, the revenues of India shall not, without the consent of both Houses of Parliament, be applicable to defray the expenses of any military operation carried on beyond the external possessions of such frontiers by Her Majesty's forces charged upon such revenues'.¹³ This clause provided a guarantee for the sanction of Parliament for the diversion of Indian revenues from their legitimate use; but it did not give a guarantee against the misappropriation of Indian revenues for purposes unconnected with India's interests. Gokhale insisted on a statutory provision that except in the case of an actual or threatened invasion, the revenues should not be used for operations beyond the natural frontiers of India. Yet another suggestion was 'that as far as possible, Indian Viceroys should be selected from among men who have earned a distinct position for themselves for their grasp of intricate problems of finance'. The connection of the Viceroy with the foreign department led to extravagant military expenditure and it was thus necessary that the department should be entrusted to a separate member of the Executive Council. These reforms were extremely modest but it must be remembered that they were offered at a time when the political horizon of India was obviously limited and the popular imagination had not yet learned to take bold flights in the higher regions of constitutional development.

(c) Provincial Finance.

Before 1871, all financial authority was centralised in the supreme government and the local governments were merely agents collecting revenue for the higher body and expending what was given to them to meet provincial charges. They had, therefore, no interest in economy and stimulus to reform. Lord Mayo initiated the measure of decentralisation in finance and handed over to local governments certain charges along with receipts from those specified heads, the excess of provincial expenditure over provincial revenue being made good by lump assignments from the supreme government. Lord Mayo expected that his scheme of decentralisation would lead to (1) economy, (2) increased responsibility on the part of local governments (3) avoidance of administrative difficulties and (4) the institution of local self-government tending to associate the people with the rulers in the conduct of public affairs. As local taxation was more convenient and the national expenditure was growing, the provincial governments were to be left to improve their financial position by economy and taxation. Municipalities and local bodies were allowed to raise funds by means of rates but the provincial governments denied the power to levy taxes on their own account independently of the Supreme Court.

12. Gokhale, "Speeches and Writings".

13. Gokhale, "Speeches and Writings".

The provincial governments had no powers of independent taxation. They collected revenue in their territories for the Central Government and were allowed to retain a portion thereof for meeting the share of expenditure for which the provincial governments were responsible. Receipts from most of the spending departments were taken by provincial governments. These financial arrangements were made semi-permanent in 1904 and made permanent in 1911. Before that at the end of every five years the Government of India made arrangements with local governments on the basis of existing financial conditions. Every time the arrangement was renewed, the Government of India tried to improve its own position by taking a slice of the provincial revenues and leaving the local governments to better their financial position by economy or in other ways. There was thus an element of uncertainty in the whole position and the provincial governments were, by no means, pleased with the Centre encroaching upon their savings every five years. These governments, therefore, became indifferent to economy and extravagant and fought among themselves and with the Government of India for a larger share of revenue.

The financial embarrassments of the Government of India, in the first instance, suggested the idea of decentralisation as a means of relief to the national exchequer and no opportunity was lost to add to the resources of the imperial government even at the cost of provincial governments. This was justified on the ground of the heavy responsibility which lay upon the supreme government for the defence and efficient administration of the country. Foreign policy, defence and the railways were in its hands, and these costly charges were reflected in its constant financial difficulties. Lord Mayo's scheme was further developed in 1877 and 1882 with the object of giving the provincial governments greater interest in economy and improved administration. The sources of revenue placed at their disposal were extremely inelastic. The weak point in the arrangements of 1871 was that while the charges transferred to the local governments had a tendency to grow, the revenue transferred, though not quite fixed, had little room for development. It was, therefore, decided to apply the system of provincial assignments of 1871 to revenue also. What was intended was not giving the provincial governments power of local taxation to enable them to expand their resources but to offer them direct inducements to improve those sources of existing revenue which depended for its productiveness upon good management. In the time of Lord Lytton, further heads of expenditure, including in most provinces, land-revenue, general administration, law and justice, were transferred to local management in addition to the allotment of a lump sum; the imperial government likewise transferred to the provincial Governments the entire receipts under certain heads of revenue, reserving to itself a share in the prospective increase. When the quinquennial contracts came to be revised in 1882, a new principle was adopted in the financial settlements made with the provinces. Instead of giving local governments, as heretofore, a fixed sum of money to make good any excesses of provincialised expenditure over the provincialised receipts, a certain proportion of imperial revenue was to be devoted to this object. Thus certain heads of revenue were reserved as (1) wholly imperial (2) others were divided between the Supreme Government and the Provincial Governments equally and (3) the rest were wholly provincial. The balance of revenues and the charges thus made Provincial, being against the local Governments, was to be rectified by a fixed percentage on land revenue otherwise reserved as imperial. The advantage of the new system was declared to be that Provincial Governments would be given a direct interest not only in provincialised revenue but also in the most important item of Imperial revenue raised within their province.¹⁴ This was certainly an advance upon the old arrangements but the system had never given any satisfaction except to the Government of India.¹⁵

14. See Government of India's resolution 30th September, 1881.

15. With the modification introduced into the system of contracts 1904 and 1911, we shall deal at a later stage. Provinces felt that they were unjustly treated and they should have liberty to order their financial house according to their needs and capacity.

In 1897, the system of Provincial finance as described, still prevailed and Gokhale characterised the contracts as 'really one-sided arrangements practically forced on the weak provincial governments by the Government of India which is all-powerful in the matter'. As we noted above, it was the financial embarrassment and evergrowing expenditure of the central Government which led it to make these contracts. Thus taking Bombay we find that in 1886-87, the last year of the contract of 1882, its expenditure was about 4 crores, which had to be reduced by about 18 lakhs in 1887-88, the first year of the next contract and it was not till 1891-92, that the level of 1886-87 was again reached when at the next revision, it was again put back. It was admitted from the outset that the contracts were not based on any fixed or intelligible principle. There was no unanimity in their plan and they did not impose equal burdens on the different provinces. Another defect, as Gokhale pointed out, was that it operated as a check on the growth of provincial expenditure while it imposed no similar restraint upon the spending propensities of the Government of India. He approved of the remedy recommended by four members of Lord Dufferin's Finance Committee of whom Ranade was one. They had proposed:

- (1) That there be no divided department but that those departments of receipts and expenditure which are now wholly or almost wholly imperial or which it may be found convenient to make imperial, should be set on one side for imperial purposes and that the receipts and expenditure of the provincial departments should be entirely provincial.

- (2) That whatever the sum by which the Imperial expenditure exceeds the income from those sources of revenue which are not provincialised, that sum should be declared the first charge on the provincial revenues.

- (3) That the provincial surplus which arises from the excess of receipts over expenditure should be the fund from which, in the first place, all imperial necessities should be met before any increase can take place in provincial expenditure.

- (4) And that as regards the future growth of revenue, it should as far as possible, be divided equally between provincial and imperial, subject to the condition that if the imperial exigencies ever required a larger share, the imperial share should be increased. This scheme was calculated to guard the interests of the provincial Governments while making ample provision for the necessities of the Central Government, at the same time imposing something like a check on its spending propensities. It was calculated to place the Indian Financial system on a sound basis and to bring it more in line with the federal systems of finance in other countries such as Germany, Switzerland, Canada and the United States.

Gokhale argued that decentralisation of power would have to take place and the local Governments would have to be invested with powers of taxation. The present financial arrangements fitted in well with the idea entertained by the Central Government of its own authority and responsibility. But it was the provincial Governments who came in closer contact with the people and were called upon every day to face urgent problems of expansion and improvement. Their resources, therefore, Gokhale argued, must be more elastic and more amenable to their own control. He pleaded that the existing arrangements would have to go and be replaced by others more in consonance with needs and demands of the people. This was the essence of the reform which Gokhale advocated and the desire for provincial autonomy in the country was his making.

The system of provincial finance, inaugurated by Lord Mayo had many shortcomings. It was felt (i) that the period of revisions interfered with the continuity of provincial finance and that each revision involved a protracted and sometimes controversial discussion with local governments and (2) that the system encouraged extravagance. Further, the apportionment of revenue to several provinces was never made on any definite logical principle. To remove all these defects and in particular to introduce an element of relative permanence into the settlements, the following arrangement was made. 'Firstly it has been decided to give the local governments, a permanent, instead of merely temporary interest in the revenue and expenditure under their control. Secondly the assignments will include a slightly smaller share of growing revenues. Thirdly, this share has been calculated so that each province separately, and all the provinces taken together, shall be placed in possession of an

amount of growing revenues, which bears approximately the same proportion to the provincial expenditure as the imperial share of growing revenues bears to imperial expenditure'.¹⁶

With a few minor exceptions, the actual heads of revenue, imperial, provincial or divided were left unchanged by the revision of 1904, but the provincial shares of the divided heads were altered in accordance with the principles stated above. It was found in applying these principles to the actual figures that the aggregate provincial expenditure represented rather less than one fourth of the whole while the imperial expenditure which included the army and the Home Charges was in excess of three fourths. These proportions were taken as the basis of the division of revenue between imperial and provincial but numerous adjustments were made mainly to allow larger assignments being made to more backward provinces and to permit provision being made for various administrative reforms and measures of improvement. The scheme placed the local Governments in a favourable position at the start and the special grants were made to them for specific improvements.

The actual working of the quasi-permanent settlements revealed the defects lurking in the arrangements which had been invested in 1904, with a large measure of permanence and were not to be revised except under certain special and extraordinary circumstances. On a review of the Decentralisation Commission's Report, the Government of India would consider the whole question again, particularly as it had to adjust the arrangements with certain provinces soon after the settlements had been effected. In a comprehensive resolution,¹⁷ the Supreme Government reviewed the history of the development of decentralised finance and explained the principles of the permanent settlements which were made with the various Provincial Governments. It was stated that the financial settlement with each of the eight major Provinces was in future to be permanent subject to the liability of the two parties to help each other in special emergencies. Certain rigid restrictions were imposed upon the provincial Governments in the matter of their balances; they were not to budget for a deficit in current revenue and expenditure unless the excess of expenditure was one due to a wholly exceptional cause. If for a special and temporary reason, any local Government had exhausted its balances, and received permission to overdraw, it would have to take a short loan from the Imperial Exchequer and pay interest on it.

These restrictions were accompanied by certain favourable features. In a good year, the local Governments would share in the surplus which the Imperial Government might distribute. Moreover, if the fixed assignment of a province became unduly high it would be converted into a share of growing revenue. Finally, the Supreme Government would not exercise over the budgetary arrangements of the local Governments the same minute control as in the past. 'From a purely financial point of view, the immediate effect of these changes was to convert fixed assignments amounting to the imposing figure of 3½ crores a year into a growing revenue. In this way the normal annual growth of its resources in each province is brought much closer to the normal ratio of growth in its expenditure than has been possible in the past'.¹⁸ This was a great measure calculated to stimulate provincial independence and self-reliance and to relieve the Government of India from unforeseen and indeterminate liability to which imperial revenues were formerly exposed.

These permanent settlements gave satisfaction neither to the Local Governments nor to the people. Gokhale noted four special characteristics of the new settlements.

- (1) There would be in future a withdrawal of all the minute control over the budgets of Provincial Governments.
- (2) The practice of contractual responsibility would be enforced rigidly in the case of those Governments.

16. Financial Secretary's Memorandum, 1904-05 - p. 66.

17. Resolution of the Government of India, 18 May, 1912.

18. V.G. Kale, "Economic Reforms" - p. 39.

(3) As far as possible, Provincial revenues would be derived from portions of growing revenues and large fixed allotments would not be made.

(4) A further step had been taken in the direction of the provincialisation of certain revenues. They were all important changes; but Gokhale doubted whether the new settlements would prove any more permanent than the last quasi-permanent settlements or for that matter the old quinquennial settlements. According to him the real trouble was that the Government of India had at its disposal too large a share of the growing revenues when its expenditure was confined to the Army and a few services which were directly under it. There was thus a tendency to spend more and more on the army and when surpluses accrued, they were doled out to the Provincial Governments. These latter got into the habit of expectation of doles and the expectation of doles was most demoralising. Gokhale's proposal was, therefore, that instead of receiving its whole income from growing revenues, the Government of India should receive fixed contributions from Provincial Governments, say up to one third or one fourth of its revenues, the other two thirds or three fourths being derived from growing resources. He compared the Indian system of finance with those in countries like Switzerland and Germany and urged that the process of decentralisation should be completed and that we should advance from that to federal finance which should be the goal for India.

(d) Public Expenditure.

The enormous increase which had taken place in the expenditure of India was the main subject of the investigation to which the labours of the Welby Commission were addressed. The phenomenon of an unprecedented expansion of national expenditure was a feature of recent years in almost all Western countries and the mere increase, taken by itself, was not necessarily open to any serious objection. But as Gokhale was very careful in pointing out, 'while increased expenditure in other countries, under proper popular control, had, so far as we are able to judge, helped to bring increased strength and security to the nations and increased enlightenment and prosperity to the people, our continually growing expenditure has, in our opinion, under autocratic management, defective constitutional control, and the inherent defects of alien domination, only helped to bring about a constantly increasing exploitation of our resources, has retarded our material progress, weakened our natural defences, and burdened us, with undefined and indefinable financial liabilities'.¹⁹ He then went on to trace the growth of expenditure on various heads and subjected the enormous increase that had taken place in the cost of the army to a searching analysis and proved how the burden was too much for shoulders of the people who did not secure a commensurate benefit therefrom. The army was too large for the needs of India and too costly for its capacity. It entailed heavy annual expenditure which prevented Indian revenues from being devoted to measures of material and moral progress.

Besides the financial loss involved in the whole system, Gokhale emphasised the moral loss also. This was a point which he never ceased to hammer because with it was bound up the elevation of the Indian people to the status of other people. The goal of British rule in this country, in his opinion, could be no other than the raising of India to the height of other members of the Empire and the aspirations and efforts of the people had always been directed to the attainment of that goal. In the words of Gokhale, 'The excessive costliness of the foreign agency is not, however, its only evil. There is a moral evil, which, if anything, is even greater. A kind of dwarfing or stunting of the Indian race is going on under the present system. We must live all the days of our life in an atmosphere of inferiority, and the tallest of us must bend, in order that the exigencies of the existing system may be satisfied. The up-ward impulse, if I may use such an expression, which every schoolboy at Eton or Harrow may feel, that he may one day be a Gladstone or Nelson or Wellington, and which may draw forth the best efforts to which he is capable, is denied to us. The full height to which our manhood is capable of rising can never be reached by us under the present system. The moral elevation which

19. Gokhale, "Speeches and Writings".

every self-governing people feel cannot be felt by us. Our administrative and military talents must gradually disappear, owing to sheer disuse, till at last our lot as hewers of wood and drawers of water, in our own country, is stereotyped'.²⁰ It will be apparent from this how financial reform was associated in Gokhale's mind with the moral and material progress of Indian people. This association of economic issues with moral problems was not only characteristic of Gokhale and his greatest pupil Gandhi, but of the entire national movement.

Gokhale spoke year after year on the evergrowing charge of the army. That charge has doubled itself in twenty years having risen from 17.9 crores in 1884-'85 to 32.6 crores in 1905-6. The Indian army was maintained at an extremely costly level, not for the simple purpose of the defence of India, but as 'a main factor in the maintenance of the balance of power in Asia'. The range of the military responsibilities of India in Asia had been enormously extended and their burden was thrown upon the shoulders of the poor taxpayers of this country. This new and imperial definition of India's position and responsibilities was calculated, 'to stagger the people of this country', for it meant that India's resources were to be unhesitatingly used for engaging in a race with European powers to absorb Asiatic Kingdoms. 'The maintenance of the Balance of power in Asia', said Gokhale, 'is a matter of Imperial concern; and for the Government of India to accept that responsibility is to impose upon this country a military duty and a military obligation to which she is utterly unequal and which moreover, it is unjust to throw on her'. And yet, in view of the developments which were taking place in Asia, the Government of India decided, on the urgent advice of Lord Kitchener, the Commander-in-Chief, to carry out his scheme for the redistribution and reorganisation of the Army at a cost of 15 crores. So far as the financial aspect of the scheme was concerned, having regard to its great magnitude and lasting character, Mr Baker an official spokesman thought, they should have justified, according to the practice of most other nations, in providing for it from loan funds; but the surplus in the Indian Exchequer were too tempting for the adoption of this principle and it was decided to make the necessary provision from current revenues. The total grants for reorganisation in 1905-1906 were to amount to more than 3½ crores per annum for the prosecution of the scheme till it was completed. When the scheme was fully carried out, the finance minister thought it would involve a considerable permanent addition to Indian expenditure in the form of recurring charges.

It was most unjust to the people of this country, Gokhale protested, to provide for the scheme of army reorganisation out of current revenues by yearly allotments and thus to keep up the high level of taxation for an indefinite period. The evil of large recurring surpluses was thus demonstrated to the hilt, and the helplessness of the people who had no constitutional power to control or influence the administration of their finances by Government, was seen at its worst.

Retrenchment and economy was the watchword of Gokhale's financial policy. Finding that civil and military expenditure in India had been growing up unrestrained, while little attention was being paid to more urgent reforms like the spread of education, he reviewed the situation in his Budget speech of 1910. 'The whole position is that during the ten years 1898-1908, while six crores were remitted in taxation, the annual civil expenditure was allowed to grow by 15 crores and about 5 crores of additional expenditure was incurred every year in connection with the army; this gives an increase of about 20 crores in civil and military expenditure in the course of ten years or an average of 2 crores a year'.

While it was imperative that the strictest economy should be practised and expenditure should be cut down whenever possible, consistently with a decent measure of efficiency, an increase, and even a very large increase of expenditure was called for on objects intimately connected with the real well-being of the people. And if retrenchment did not produce the money required for these objects, Mr Gokhale

20. G.K. Gokhale, "Speeches and Writings".

would not shirk from advocating additional taxation for the purpose. He surveyed the field of Indian finance from 1875 to the year 1908-'09, and divided this long period of 33 years into four small periods of more or less equal duration for comparing the growth of expenditure. He made very elaborate calculations to arrive at the normal net revenue and expenditure and to eliminate all the different factors such as exchange and remission of taxation which were likely to render the comparison unfair. There were two factors to be borne in mind at the outset: (1) That out of the 51 millions that were available for ordinary expenditure every year, 30 millions were devoted to civil expenditure (6 millions for collection of revenue, 15 millions for the salaries and expenses of civil servants, about 5 millions for miscellaneous civil charges and about $4\frac{1}{2}$ millions for civil works) and a little under 21 millions was spent on the Army; and (2) that this total real revenue excluding opium receipts, was capable of growing at the rate of $1\frac{1}{2}$ per cent per annum. The results of Mr Gokhale's survey is given in the following table:

| Period | Annual increase of revenue | Annual increase of expenditure |
|--------------|----------------------------|--------------------------------|
| 1. 1875-1884 | 1 $\frac{1}{4}$ per cent | $\frac{2}{3}$ per cent |
| 2. 1884-1894 | 1.5 per cent | 1.5 per cent |
| 3. 1894-1901 | 1.5 per cent | 1.5 per cent |
| 4. 1901-1909 | 2.0 per cent | 5.0 per cent |

The moral of these figures called for an immediate and independent enquiry. There had been such enquiries in the past - in 1874 by a parliamentary committee, in 1886-'87 by Lord Dufferin's Committee, in 1897 by a Royal Commission presided over by Lord Welby. Such an enquiry had become absolutely necessary. There were four remedies which in Gokhale's opinion were required to meet the situation.

1. The spirit of expenditure in the administration should be chained and controlled and the spirit of economy installed in its place.
2. The military expenditure must be substantially reduced.
3. There should be a more expanded employment of the indigenous Indian agency in the public service.
4. Provision should be made for an independent audit in this country. The reader would recognise in these remedies the suggestions which had been made to the Welby Commission and would see how even an interval of 14 years had made no substantial change in the spirit of the Indian administration.

The writers of the Minority Report of the Welby Commission were of the opinion that (a) Indian expenditure was not governed by Indian considerations and this defect was reflected in (i) the Frontier policy, (ii) the extension of railways, without due regard to other and more urgent needs and (iii) continued special concessions to European officials. They maintained that a greater part of the recent increase in expenditure was on these heads.

(b) It was further noticed that due care was not taken in spending Indian money and this statement was illustrated by reference to the facts that (i) qualified Indian agency was not substituted for European agency (ii), controlling and supervising agencies had grown beyond proper limits, (iii) Indian armies were maintained on a permanent war footing (iv) the number of British troops was disproportionately large (v) employment of Indians in the army was restricted and (vi) the policy in connection with railway contracts and concessions was not satisfactory.

(c) Another defect pointed out was the faulty distribution of expenditure and the fault lay in (i) more being spent on the so called national defence and less on national development, (ii) imperial expenditure being much larger than the provincial and (iii) more being expended on the improvement of communications than upon the improvement of the condition and capacity of the people. As regards apportionment of charges between Great Britain and India, the Minority Report observed that the apportionment should be as between two partners and not as between master and slave.

(e) The era of surpluses.

(1) Causes:

The early years of the present century were a new era in the history of Indian finance - an era of surpluses. Though the danger of famine and scarcity was ever present to the mind of the government and increased military expenditure was not an unlikely possibility, one of the most disturbing factors in the financial situation had been entirely removed by this time - namely the uncertainty of foreign exchange. Not only was the gold value of the rupee permanently fixed by law at 16 d and the possibility of a substantial fall in exchange precluded, but a very large saving was effected in the remittances to pay the Home Charges. Taxation in India had been raised to a high level to enable the government to meet the increase in these charges caused by the falling exchange and that the level was maintained even when the value of the rupee was artificially raised. The public treasury continued to overflow with surpluses year after year and it was felt that everything was for the best in the country. The surpluses which had become a familiar feature of the Indian Budgets were rendered possible by the artificial enhancement of the rupee and a high level of taxation. It seemed that the Government systematically underestimated revenue and overestimated expenditure.

(2) Criticism and Constructive Suggestions:

This situation had its inevitable effect upon the expenditure of the country. With abundance of money in the exchequer, the level of expenditure was bound to be pushed up. 'Economy came to be a despised word and increased establishments and revised scales of pay and pension for the European officials became the order of the day'.²¹ The most pressing needs of the country in regard to the moral and material advancement of the people continued, for the most part, unattended, and no advantage of the favourable financial position was taken to inaugurate comprehensive schemes of state action for improving the condition of the masses. Those who spoke of India's poverty were dubbed unreasoning and blind pessimists and the continued surpluses encouraged the spending proclivities of different departments. Few realised the causes of the recurring surpluses.

The large surpluses which accrued in the treasury from year to year were so striking that they could not be accounted for on the theory of the steady growth of prosperity in India. Some people found an adequate explanation in the steadily improving economic condition of the people and they never paused to enquire whether the cause was sufficient to pour unexpected crores into the treasury. The question was how could there be continued surpluses in the national accounts when there was no sudden accession of wealth to the people and addition to the resources of government. Gokhale saw at a glance the true character of the surpluses and during the next few years continued to expose the fallacy which attributed them to the growing prosperity of the people. The surpluses really meant that the government was taking more out of the pockets of the people than it was justified in doing and that more money was available to it than could be usefully spent on measures calculated to provide for the material and moral well-being of the masses of the people. The secret of the surpluses was that they were 'mainly, almost entirely, currency surpluses resulting from the fact that the Government still maintained the same high level of taxation which they considered to be necessary to secure financial equilibrium when the rupee stood at its lowest'.

This criticism of Gokhale had its effect on the official policy and in the financial statement of 1903-'4, by Sir Edward Low, two of three recommendations of Gokhale were adopted. The three suggestions were the reduction of the salt duty, a raising of the taxable minimum limit of the income tax and the abolition of the cotton Excise duties. The Government decided to reduce the Salt Tax in India from Rs 2-8-0 to Rs 2/- and to exempt from Income Tax all incomes below 1000 rupees per

21. Gokhale, "Speeches and Writings".

annum. The Government had always clung to the Cotton excise duties with an obstinacy which could be explained only by the political influence of Lancashire in the British Parliament to which Liberals and Tories alike were susceptible. The Salt duty as such did not, in the opinion of the Government, press hardly on the mass of the people, the actual import per head being trifling. But in actuality, it was paid in the main by those who could least afford to do so. So the Government hoped that the reduction of the burden might prove a boon to the poorest class of tax payers. Sir Edward Low, however, had another purpose for reduction. By it, as he proceeded to observe, a reserve which could immediately and rapidly be made use of once more by increasing the rate in case of misfortunes like war or famine would be created.

Regarding the economic condition of the people, Gokhale compiled tables from official publications and established the following propositions.

1. That the death rate had been steadily rising since 1884, which pointed to a steadily increasing number of people being underfed.
2. That the last decade had been a period of severe agricultural depression all over India.
3. That the net cropped area was diminishing in older provinces.
4. That the area under superior crops was showing a regrettable diminution.
5. The export and import figures told the same tale. Cattle were perishing by large numbers. While the Finance Minister Sir E. Low relied upon the statistics of increased revenue from salt and stamps, excise, customs and post office as a sure indication of growing prosperity, Gokhale argued from the developments in the various sectors of production. The fallacy of regarding the increase in customs revenue as a sure sign of material progress of the people he exposed by showing how the ever-increasing imports of foreign manufactured goods, far from indicating any increase in the country's purchasing power, connoted a corresponding displacement of the indigenous manufacturer. 'Thus while the imports of cotton goods has been for years past steadily increasing, we know, as a matter of fact that hundreds and hundreds of poor weavers throughout the country have been and are being driven by a competition, they cannot stand, to give up their ancestral calling and be merged in the ranks of landless labourers'.²² This transformation of India from a country which had flourishing agricultural and manufacturing industries into a predominantly agricultural country and dependent upon imported manufacturers, had long been going on and had been facilitated by the extension of railways.

Gokhale laid down the sound principle that whenever there was a surplus it should be appropriated to the work of promoting the educational and industrial interests of the country. The Finance Member differed radically from Mr Gokhale on this question. While they devoted surpluses, which only meant an excess of revenue taken from the people over the necessary expenditure of the year, to the reduction of the national debt, he wanted them to spend the surpluses in pushing educational and industrial progress. The public debt of India was comparatively small and there were valuable assets on the other side. It was, therefore, unfair that the surpluses should be devoted to the reduction of debt rather than be directly spent on the promotion of the moral and material interests of the people. The intimate connection between financial policy and economic progress of the nation would thus be obvious. The question of the employment of Indians in higher and more responsible offices in the administration was also closely connected with the problem.

The three evils to be combated in connection with the ryot's position were, in Gokhale's opinion, his (1) fearful poverty (2) his ignorance (3) his insanitary surroundings. He indicated the lines on which action was really needed. (a) The most important of these measures was a reduction of the State demand on land, especially in Bombay, Madras, and U.P. and a limitation of that demand all over India.

22. Gokhale, "Speeches and Writings".

- (b) a resolute attempt must be made to rescue the Indian agriculturist from the load of debt that overwhelmed him.
- (c) These must be accompanied by 'the providing of facilities which, while encouraging thrift, will enable the agriculturist to borrow on occasions for his reasonable wants at a low rate of interest'.
- (d) Promotion of scientific agriculture and the extension of irrigation on a greater scale and faster rate.
- (e) The promotion of industrial and technical education was also an urgent necessity as a remedy for the extreme poverty of the people.
- (f) Primary education, should be made free in schools throughout India. These suggestions contained the germ of the Primary Education Bill, which Gokhale brought before the Viceroy's Council a few years later.
- (g) The need of works of sanitary improvement such as good water supply and drainage was stressed.

Even with the present level of India's resources, he would find money from the following sources. 'Thus if the Army Reorganisation Scheme is held up or at least its initial cost is met out of borrowings, a sum of one to two millions a year will be available and that may be devoted to a vigorous extension of primary education. The profits of coinage averaging now about two millions a year, may supply funds for the relief of agricultural indebtedness. The famine grant, which stands at a million sterling, may, after deducting the expenditure on actual famine relief, now be devoted, to industrial and technical education'.²³ The deposits in Savings Banks might be made available to cooperative credit societies. And whatever surpluses accrued, might be devoted to assisting local bodies in the construction of sanitary improvements.

5. Two more questions dealt with in Gokhale's budget speech of 1905, were those connected with the reduction of land revenue in the temporarily settled districts and the appointment of Indians to high posts in the administration of their own country. He pointed out how the burden of taxes on land was heavy even according to official estimates and how the agricultural classes were resourceless and burdened with debt and urged that the fearful poverty and indebtedness of the cultivator called for a great and comprehensive scheme of ameliorative action. The second question had reference to the employment of Indians in the public service. It had engaged the attention of the Government and the public for several years and in spite of commissions, inquiries and resolutions, the wishes of the people remained ungratified. Lord Curzon referred to that question in 1904 in his speech and the Government of India issued a resolution in May of that year. In the resolution the Government came to the astounding conclusion that not only were the people of this country not justified in complaining of exclusion from high office but that they were being treated with a 'liberality unexampled in the history of the world'. It was not a difficult matter to expose the hollowness of the excuses which were put forward practically to exclude Indians from positions of trust and responsibility in their own country and Gokhale showed how inaccurate and misleading was the conclusion which the Government had recorded on the subject in their resolution. The Viceroy expressed his warm sympathy with the aspirations of the Indian people but defended himself in his position of excluding Indians from higher posts behind the walls erected by the Public Service Commission of 1887.

Thus it is that we find in Gokhale's speeches on the budgets of his day the best evidence of his powers of analysis, unflinching courage to expose the evils of foreign rule and his deep love for the welfare of this country. Much of these criticisms bore the stamp of new ideas of public finance. He inveighed strongly against the pernicious system of continuously budgeting for large surpluses and utilising them for productive expenditure on railways. It was a double wrong according to Gokhale. The maintenance of a system of high taxation for surplus, unsound in principle and inequitable in practice, had not an iota of justification

23. Gokhale, "Speeches and Writings".

when the conditions which might have justified the practice had long ago disappeared with the closing of the mints to the free coinage of the rupee and the maintenance of stable exchanges. But even if surpluses had accrued as a result of Finance Member's wrong budgeting, they should not be used for Railway outlay which should be wholly met by loans. The principle of utilising revenue surpluses for capital expenditure and of thus wiping out unproductive debt (in addition to the normal provision of reducing debt) was a peculiar feature of Indian finance. In Madras the hydro-electric schemes had been financed partly on that basis. Gokhale set his face sternly against that practice for which there was nothing to be said. Some would defend the system on the grounds of safety and prudence but then public investment would be at the mercy of the uncertain revenue surpluses, and that would mean that the funds so urgently required elsewhere for the raising of the material welfare of the people were used less advantageously. Rightly therefore, did Gokhale condemn this pernicious system and pleaded for the utilisation of these surpluses on schemes of education and sanitation. In his own words, 'When questions concerning the deepest welfare of the community and requiring to be taken in hand without any delay are put aside on the ground of want of funds, it is most unfair that these surpluses should be devoted to the construction of the Railways'.²⁴ He was, of course, for a balanced budget. The idea that budgets could be unbalanced was in his days and indeed until quite recently, unthinkable. But he was not against a small deficit or a moderate surplus. A large surplus accruing year after year, was an invitation to the departments to waste.

In keeping with his general attitude towards public expenditure as a means of improving the economic well-being and productive capacity of the people, Gokhale propounded his attitude to the problems of public debt. Expenditure was to him more important than avoidance of debt. Indeed he was strongly for incurring debt to meet all items of extraordinary expenditure. Gokhale held very strong views on the question of sinking funds to redeem debt. A reasonable sinking fund was all that India had; but there was no need to add to it every year from the revenue surpluses or liquidate the debt rapidly from out of the ordinary revenues. Moving the annual allotment of Rs 500,000 under Famine Relief towards the reduction of debt, Gokhale enunciated his principles firmly thus: 'I suggest that this grant should no more be devoted to the reduction of debt and I do not think that its reduction is of paramount importance. On the other hand, if the same sum was made available for agricultural education, for the organisation of rural credit and other measures with the material improvement of the peasantry that would benefit the peasantry far more than the present practice of government. I am quite sure that Finance Member will tell us that I am attacking the principle of the sinking fund. No doubt, I am. I go further and say that in the present state, you do not want a sinking fund'.²⁵

6. The system of long-term budgeting or planned scheme of expenditure was foreshadowed by Gokhale in some of his budget speeches. He pleaded for the creation of special provincial Reserves and for the Local Funds Reserve to both of which he advocated an annual allocation of funds from central revenues and out of which these bodies might spend on programme lasting for a certain period of time. A large regular grant for that purpose was advocated and these grants would go to the fund. He advocated with success a scheme by which the accounts of Railways, Irrigation and Posts and Telegraphs and all other commercial departments of government should clearly show the net return plus or minus. It took more than two decades for the government to follow this valuable suggestion of Gokhale.

His modern ideas on problems of finance were revealed in his attitude to the financial relations between provincial governments and the Centre. He saw clearly even as early as 1910 that the root of the trouble was that the Government of India had at its disposal too large a share of the growing revenues while its expen-

24. Gokhale, "Speeches and Writings".

25. Gokhale, "Speeches and Writings".

diture was practically confined to the army and a few services. The provinces had little resources but a large field for useful expenditure. He, therefore, pleaded for a reduction in the resources available to the centre and proposed that the government of India should be content with getting about two thirds of its revenues from its own resources and derive the rest from contributions from the provinces which should be left with ample resources. He was for ending the practice by which provinces should be looking forward to the Government of India for doles for their growing requirements. While he did not elaborate his scheme of financial relations between the centre and the States, it was clear that the problem of Federal Finance was crucial to his ideas of financial reconstruction of India. Some of the proposals for new taxation suggested by Gokhale then had become important sources of revenue later. The export duty on jute which proved to be one of the mainstays of Bengal Finance was recommended by Gokhale as early as 1910. He recommended an export duty on hides and skins which too came to be included in the fiscal system later.

7. A Critical Estimate.

The study of Public Finance had assumed increasing importance as a field of economic analysis in India during Gokhale's time. Several factors had contributed to this trend, one of which had been the continued growth of government. Of greater importance was a growing recognition that the money expenditures and money receipts of government might affect not only the pattern of production and the distribution of the total product among the various income receivers but also the level of production and employment within the country.

Any measure which could be applied to the available data indicated almost continuous growth of the Government of India during the past half a century (1857-1907). During the same period, the number of federal employees (excluding military personnel) increased several times. State and local governments also were employing many more people than they did a half century ago. There had been an expansion in total rupee expenditures; there had been an upward trend in per capita money expenditures (adjusted for changes in the value of money); and the ratio of public expenditures to national income had increased. The last two were of particular importance. They indicated an expansion of the role played by Government in producing income (money payments and services) to the average individual and also that the relative share of national income being channelled through government had been rising.

The continued growth of government together with changes in governmental fiscal activities initiated during the period had brought about important changes in the field of public finance. Since 1870, the various aspects of government finance had been studied increasingly with reference to their effects on the economy as a whole as well as their impacts upon the treasury.

With Gokhale relatively greater attention was given to the effects of governmental fiscal operations upon the levels of production and employment in the economy. Increased emphasis was placed upon interrelationships between governmental receipts and expenditure. In his analysis Gokhale was interested mainly in economic policy. He considered economic policy as the sum of the activities of the government in determining the economic framework within which economic units function. Economic policy should encourage efficiency in the use of productive resources. Since a given collection of resources might be utilised to produce any one of a large number of different combinations of products, Gokhale thought that the concept of the maximum product must be more clearly defined. The importance of each of the various goods and services which make up the product had to be evaluated.

Another objective of this economic policy was equity in the distribution of income. Equity meant to him that the dispersion of the income distribution should be narrowed from what it would be, if incomes were determined only by ownership and relative prices. How much it should be narrowed, however, was a question to which he

did not give any definite answer. However, he took into account both the nature of the income distribution and the total income to be distributed. Gokhale was the first in India to emphasise that Governmental money-spending and money-collecting may be directed specifically toward influencing the overall level of economic activity. He saw that the fiscal system may be used as a framework for altering the quantity of money, and changes in the quantity of money may have important effects upon aggregate expenditure in the private economy.

Almost all his pronouncements on economic affairs had a very modern ring about them. One must refer to the very clear analysis which he made of the impact of money on an undeveloped economy. He was the only economist beside Alfred Marshall who had understood the implications of such a transformation and who attempted to supply an explanation. India was on a silver standard up to 1893. The rapid expansion of the rupee currency between 1870 and 1893 served towards satisfying the liquidity preference and so tended to lower the rupee rates of interest relatively to the rates of profitability of investment in India. The increase of currency facilitated the extension of the circle of exchange by providing the extra money needed for transacting the greater volume of exchange. Currency expansion helped to break down local self-sufficiency and to bring India more and more into a 'money' or exchange economy. It was not suggested by Gokhale that the exchange economy was promoted only by currency expansion. Capital development (railways, factories, irrigation, and plantations) itself implied and led to increased division of labour. But the fact of currency expansion in the same direction should not be overlooked on that account. Extra money was required as money economy spread to the medieval village. The spread was rendered more rapid by the expansion of the silver currency in the period of 1870-1893 and the rapid accumulation of capital in that form was one of the leading aspects of India's capital development in the nineteenth century.

Although Gokhale lived at a time when the power of the Indian economist to shape the economic and financial policies of the Government of India was extremely limited, he nearly succeeded in leaving the imprint of his mind on the policies of the Government as can be seen from a study of the budget statements of successive finance ministers during his time. In the sphere of public finance, the contribution of Gokhale was of no mean order. Most of the principles which he enunciated were not only true in his days but had stood the test of time and were anticipations of modern ideas on the subject. Speaking in 1902, he says: 'The true guiding principle of Indian finance ought to be a severe economy, a rigorous retrenchment of expenditure in all branches of administration consistent with efficiency, keeping the level of taxation as low as possible so as to leave the springs of national industry free play and room for unhampered development'.²⁶ These words represented the spirit of conservative finance but Gokhale soon revealed himself as an advocate of a forward programme of private expenditure and travelled far from this limited scope of public expenditure. In his speech on the budget statement for 1908, Gokhale gave expression to the principle that should govern public expenditure. 'A large portion of our revenues should be devoted to objects on which the moral and material well-being of the masses of our people ultimately depends..... Expenditure on primary functions is necessary but it must be kept down. On the other hand, no state can expend too much on object like education'. In another place, he stated his attitude to expenditure in the following words: 'Increase in public expenditure will not only not be grudged but will be regarded with feelings of sincere satisfaction and gratitude all over the country'. But he was an ardent advocate of expenditure in all developmental functions, on education, - technical and general - on industry, agriculture and sanitation and public health. According to him, far more money was being spent on the purely defence and primary functions whereas the economic functions of the government had been neglected. He urged that the relative claims of the two on the resources of the country should be reversed. He was like all his contemporaries strongly against the continuous increases in the

26. Gokhale, "Speeches and Writings".

military burdens of the country and urged not merely a reduction but a sharing of the cost by the British Government.

Gokhale's views on the burning controversy of free trade versus protection were marked by a refreshing sense of realism. 'By conviction I am not an upholder of free trade in all countries and at all times'. He was like almost every other contemporary in India a protectionist. But what distinguished him from the rest of his countrymen was his conviction that in the circumstances of the economic and political evolution of the country free trade was the safest policy. He was afraid that if protection were introduced, then it would be the wrong kind of protection under which powerful influences and combinations and interests prejudicial to the interests of the general community would come into existence and receive assistance. Those interests would have ready access to the Secretary of State and use this huge engine of protection in their own selfish interests and against those of the people of India. The profits of protection would go to enrich the Europeans only. Hence he would not be a party to such protection. His idea of protection was not confined to mere tariffs. Speaking on the needs of the sugar industry, he pointed out that a mere increase in tariffs would not avail but what was required was assistance of a more direct kind. Government should make available the services of expert chemists, render facilities in the matter of irrigation, land and research.

Gokhale favoured the system of the gold exchange standard when other Indian politicians pressed for the adoption of gold standard. He only wanted to ensure that the gold standard reserve was not piled up to an unreasonably high level beyond what was necessary for the maintenance of stable exchange. For no fault of his, the figure which he thought was sufficient was proved to be wholly inadequate. The Government of India went wide of the mark and also failed to use the funds intended for the purpose. Instead they clung to the reserve as if its purpose was never to utilise it.²⁷ He was not against the gold standard. He held that a 'gold currency has never been authoritatively proposed as a definite object to be attained; that it is wrong to pile up a high gold reserve in pursuit of an object never proposed or even regarded as attainable within a measurable distance of time and that it is looking too far ahead into the future to anticipate the introduction of a gold currency into India'. But he was by no means happy over the working of the gold exchange standard. He shared with several others the view that the increase in the level of prices in India since 1900 was directly due to the working of the new currency system which while it brought about increased supplies of currency, did nothing to take away the redundant or excess currency. On the other hand, it was alleged that on account of the token character of the rupee the old practice of melting had been given up, and fresh money once created continued to swell the currency. An increase in the quantity of money was bound to result in high prices. Indeed Gokhale stated that the quantity theory of money was of special application to India.

It is easy to see now that the above was not an adequate explanation of the high prices or of the shortcomings of the currency system. The ultimate factor explaining the price levels in India (as well as of balance of trade) was the world's demand for our staple commodities of export. Internal causes were relatively unimportant in determining them. The quantity of currency in India very often had been the result rather than the cause of high prices and during the period to which Gokhale's criticism related, the foreign demand for India's staples was the governing factor tending to higher prices. Under any currency system that was bound to happen. In India on account of the excessive liquidity preference of the agriculturists a larger volume of currency would be required to maintain a certain level of prices. But it was not the quantity of money that determined the high prices; the latter was the cause and the quantity of money the result.

27. Karl Elstatier, "Effects of Fluctuating Exchanges on Indian Economy".

Gokhale like many others then did not have a clear idea of the exact nature of the defects of the gold exchange standard. Between England and India, the supposed compensatory mechanism of the exchange standard did not function properly. Losses of gold from one country to another when balances became adverse were supposed to bring about a change in the relative price-levels. But the way in which it functioned produced no such effect in England which had all India's gold stocks with her. England was never compelled to take action vis-a-vis India when she lost or gained gold. If when India had large favourable balances and took them in the form of gold resulting in Britain contracting her currency and credit, more imports would have flowed from England, and the price level in India would not have continued to go up. Gokhale did not furnish full or adequate explanations for the high prices in India for the simple reason that only today the real explanation of the value of money is being understood.

Chapter 5

Romesh Chandra Dutt

Romesh Chandra Dutt was born in Calcutta in 1848. He became a Member of the Indian Civil Service in 1869; he served in various capacities in the different districts of Bengal between 1871 to 1882. He became District Magistrate in 1883. In 1892, he was made Companion of the Indian Empire; he was appointed Commissioner of Burdwan Division in 1894, the only Indian to rise to that position in the 19th century. He retired from service in 1897. He stayed mostly in Europe from 1897 to 1904. He was elected President of the Lucknow Session of the Indian National Congress (1899).

1. Romesh Chandra Dutt was a profound interpreter of economic history. Early Indian economic thought had found its most perfect expression in his writings. His 'Economic History of India', an encyclopedic work of two volumes, had secured for him a leading position in Indian thought. He took a vigorous interest in the political developments of his time, serving as a member of various public bodies. He made a name for himself as a brilliant critic of social institutions and attitudes in his scientific as well as literary works.

Romesh Chandra Dutt was neither a mercantilist nor a foe of free trade; he did not produce a complete system of economics but contributed many new ideas. His analysis of the degree to which unsatisfactory forms of agrarian structure, and, in particular, systems of land-tenure in India impeded economic development and thus depressed the standards of living especially of agricultural workers and tenants and of small and medium-sized farmers, contained new thoughts which were to bear fruit only half a century later. Furthermore, at a time when Indian economists demanded the reduction of government intervention in economic life to a minimum, Dutt had seen that the problem involved the correct drawing of a boundary line: while government should abstain from interventions which harm private initiative, it should be ready under specific circumstances to remove the obstacles which a temporary emergency or the conflict of interests placed in the way of the free play of economic principles.

Being a man of vast administrative experience, Dutt disseminated an abundance of ideas among his contemporaries. While he attracted neither disciples nor followers, there were many serious men of science, and famous politicians who 'hung on his lips to pluck the flower of the most powerful intellect of his days'. He insisted that those who develop theories should keep in mind the specific circumstances of time and place. Dutt did not mark an epoch clearly. From a certain point of view he was a forerunner of the next century; but he also was a true representative of his own time. Romesh Chandra Dutt was the first to establish in India the purely economic way of argumentation which reminded one of Cantillon and Ricardo.¹ Instead of giving recipes and practical advice, he used the steel-trap logic of pure economics: such are the assumptions, such are the conclusions. The beauty, the vivacity and the forcefulness of his style would appeal to all and the substance of his ideas still possessed a general appeal. Some of the truths, as stated by him, have continued to live, in improved and modified form, among the fundamental principles of economic science.

2. R.C. Dutt's method.

Dutt developed his argument with the help of isolated cases and by means of bold contrasts. He had no great love for systematisation and classification as such. He clearly recognised the methodological mistake of considering arbitrarily one of the many data of reality as a cause - thereby turning all other data into effects. In contrast with this, he developed the notion of interdependence of political and

1. Richard Cantillon, "Essay sur le commerce", 1755.

economic facts. In the immense machinery of society, everything hanged together, was connected and linked. Nothing must disturb the equilibrium lest the whole mechanism over-turned.

Dutt's concept of interdependence and equilibrium was not static. To him the economic and social equilibrium changed all the time. If the government decided to interfere, it must see to it that it did not come too late and that it did not consider measures which it believed to have instantaneous effects while actually circumstances had changed when the effect took place.

Dutt anticipated here the sceptical attitude of modern economists to the solution of modern economic problems on the assumption '*ribus sic stantibus*'. This assumption contradicted reality because it neglected the passage of time. There were at least two variables which had to be taken into account in the study of any economic problem. One was the basis of the problem itself, the other the passage of time. As Dutt put it, it was not only the shortage of grain which was important as determinant of human action in a year of famine. If human action could bring about its effects instantly, grain would move from surplus regions with low prices to regions where there was a grain shortage and where grain prices were high. But time must pass until the news of the famine had spread and until the grain arrived at the place of consumption.² Meanwhile the famished might have died.

Dutt aimed at a complete change of the economic structure of the society, in which he lived. But he did not create the impression of being an abstract, unrealistic theorist. He believed that the true order of society enabled man to regulate and modify natural forces in a manner best suited for the maintenance and progress of society itself. He subjected the economic mechanism prevailing in India to a penetrating analysis and studied the manner in which its different parts were joined together. Most important ahead of the other economists in India, he investigated the continuity of the economic order and the relationship between the various elements of an order which was integrated as well as complex. He showed that the production and distribution of goods and services was a continuous progress, renewing itself without pause and carrying in itself the factors making for repetition and continuity. But, like the modern schemes of general equilibrium of Walras and Pareto, this portrayal remained a schematic presentation in broad outline, without shadows and contrasts. Apart from the picture of the whole which described the permanent and the self-renewing, apart from the equations of general equilibrium, which refer to the state of rest and to the final destination, he was interested also in the explanation of the frictions, the crises, the obstacles to be surmounted, the path toward the goal - that quiet port at which nobody ever arrived. Dutt had in his possession the indispensable tool of analysis. Although he did not call it '*method of successive approximation*', he knew how to handle it in a masterly fashion.

Historically inclined as he was, Dutt always saw the special side by side with the general, the abstract and the ideal side by side with the concrete, the factual and the real. He, being aware as a true scholar of the limits of abstract argumentation, possessed a historical mind. He knew that the validity of economic laws, which were true within the limits of their assumptions, could not be expanded beyond the field delineated by these assumptions. He corrected and reformulated his assumptions very often in order to take into account the changing circumstances of time and place.

3. His work.

In July 1900 Romesh Chandra Dutt's book entitled '*Famines in India*' appeared and was well received in all circles. Of this book, Prince Kropotkin wrote to him, 'The conditions of your agricultural populations are awfully, terribly similar to

2. R.C. Dutt, "*Famines in India*", 1900.

those of the Russian peasants and I now will often think that whatever we do in Russia for awakening the consciousness of the agrarian evil - and anywhere in Europe as well - will be in an indirect way for hundreds of millions of people whom we cannot approach without feeling love for them'.³ Lord Curzon, the Viceroy of India, thought it to be 'a reasonable and well informed statement of the views'.

Dutt's thesis in this book could be summarised in these words. India was plainly suffering from the impoverishment caused by the continuous drain out of the country of industrial products without return, the burden of which by reason of the revenue system fell mainly on the cultivating peasant. To moderate the drain meant to lessen the gain of the foreign ruling class; to readjust the land-revenue system or rather systems and to put them upon a fair and equitable footing throughout meant to diminish the total revenue. This would render great reduction of expenditure necessary.⁴

In 1902, he published the first volume of 'Economic History of British India'. In several respects this book would rank as the most valuable of books on India under the British rule. It presented a close record of agriculture and land settlements, trade and manufacturing industries, finance and administration from the rise of the British power in 1757 to the accession of Victoria. Regarding this work, Manchester Guardian wrote, 'Mr Dutt has woven an intelligible history of the economic policy of the company, the accuracy and impartiality of which can hardly be questioned'.⁵ The book was by no means framed as an indictment of British rule; no writer had accorded a fuller or more enthusiastic testimony to the labours of such administrators as Munro and Elphinstone and to the good intentions which had animated some of the most unsuccessful experiments. In 1904, the second volume of his Economic History of India appeared which to this day remained the most exhaustive and scholarly treatise on the subject.

His position as a retired servant of the British government imposed upon him some disabilities. In his preface to 'India under Early British Rule', he declared, 'For one who has himself spent the best and happiest years of his life in the work of Indian administration, it is an ungracious and painful task to dwell on the weak side of that administration, the financial and economic policy of the Indian Government. I have undertaken this duty because at the present moment the economic story of British India has to be told and the deep-seated cause of the poverty of the Indian people has to be explained'.⁶ He also made the unstinted acknowledgement of the blessings of the British rule. In the preface to his second volume he said, 'Englishmen can look back on their work in India, if not with unalloyed satisfaction, at least with legitimate pride. They have conferred on the people of India what is the greatest human blessing peace. They have introduced Western education, bringing an ancient and civilised nation in touch with modern thought, modern science, modern institutions and life. They have built up an administration which, though it requires reform with the progress of times, is yet strong and efficacious. They have framed wise laws and have established courts of justice..... These are results which no honest critic of British work in India regards without high admiration'.⁷

4. Defects in agrarian structure as obstacles to economic development.

The central idea of R.C. Dutt's political and economic creed was the problem of raising the material condition of the agriculturists in India. In this predominantly agricultural country, the level of output per acre was generally lower than it

3. J.N. Gupta, "Life and Work of Romesh Chandra Dutt" - p. 285.

4. R.C. Dutt, "Famines in India", 1900.

5. Manchester Guardian, quoted by J.N. Gupta in "Life and Work of Romesh Chandra Dutt" - p. 283.

6. R.C. Dutt, "India under Early British Rule" - p. 3.

7. R.C. Dutt, "India under the Victorian Age" - p. 14.

was in the predominantly industrial countries; the level of output per person in agriculture was very much lower, because in his view, the density of farm population per acre was much greater, while the average yield per acre was less. As a long-term trend he thought that these differences in productivity would tend to become greater.

The causes of low productivity in agriculture and of low standards of living of the farm population were many; poor soils and unfavourable climates, backward techniques and inadequate equipment, excessively high densities of rural population and low prices received by the farmer. Among the most important factors which affected rural living standards, in Dutt's view, was the agrarian structure. The term was used by him to mean the institutional framework of agricultural production. It included, in the first place, land tenure, the legal or customary system under which land was owned, the distribution of ownership of farm property between large estates and peasant farms or among peasant farms of various size. Land tenancy, the system under which land was operated and its product divided between the actual tiller and the owner; the organization of credit, production and marketing; the mechanism through which agriculture was financed, the burdens imposed on rural populations by the government in the form of taxation and many other factors were discussed by him in their historical origin and set up as the many ways in which agrarian structure might be an obstacle to economic development and economic welfare. He showed how the agrarian structure might reduce the standard of living of the peasant, by imposing on him exorbitant rents or high interest rates. He saw how it might deny the farmer the incentive or opportunity to advance and how it might check investment because it offered him no security. He traced clearly how the land legislation in the country in certain provinces led to the prevalence of farms which were too small to be efficient units of production or too large to cultivate intensively. The influence of land tenure system varied greatly from province to province and there were no defects which were present to the same degree in all the regions, though certain ones were very wide-spread.

5. In the concluding chapter of 'India in the Victorian Age', Dutt summarised his conclusions on the material condition of the Indian people:

'The yearly income of the people of India, was estimated by Lord Cromer and Sir David Barbour in 1882 to be 27 rupees. Their present income is estimated by Lord Curzon to be 30 rupees. Exception had been taken to both these estimates as being too high; but we shall accept them for our present calculation; 30 rupees are equivalent to 40 shilling. The economic condition of the country can be judged from the fact that the average income of the people of all classes, including the richest, is 40 shillings a year against 42 pounds a year in the United Kingdom. The taxation per head of the population is nearly 4 s 8 d per head. This is a crushing burden on a nation which earns very little more than its food. He is taxed 40 per cent more than the taxpayer of Great Britain and Ireland'. 'Leaving out exceptionally rich districts like Backerganj, Delhi and Ahmedabad and exceptionally poor districts like Fyzabad, the wages of the able-bodied agricultural labourer range from 4 s 8 d to 6 s 8 d a month. Except in very rich districts, therefore, the agricultural labourer does not get even 3 d a day; his average earnings scarcely come to 2½ d per day. Some deduction should be made from this, as he does not get employment all through the year; and 2 d a day, therefore, is more than he hopes to get throughout the year. The appalling poverty and the joylessness of his life under such conditions cannot be easily pictured. His hut is seldom re-thatched and affords little shelter from cold and rain; his wife is clothed in rags, his little children go without clothing; of furniture he has none; an old blanket is quite a luxury in the cold weather; and if his children can tend cattle or his wife can do some work to eke out his income, he considers himself happy. It is literally a fact, and not a figure of speech, that agricultural labourers and their families in India generally suffer from insufficient food from year's end to year's end. They are brought up from childhood on less nourishment than is 'required even in the tropics and grow up to be a nation weak in physique, a prey to plague or famine.

Agriculturists who have lands are better off. They are better housed, better clothed and have more sufficient food. But a severe land-tax or rent takes away much from their earnings and falls on the labouring classes also. For where the cultivator is highly taxed and has more to spare, he enjoys more to labour, and labour is better paid. In Backerganj, where the land is lightly rented and the cultivator is prosperous, the labourer employed by him gets 10 s 8 d a month. In Salem, where the land is heavily taxed and the cultivator is poor, the labourer he employs earns 4 s 8 d a month'.

But Dutt's main argument in support of this contention as regards the growing poverty of India was the frequency and severity of famines. He writes, 'One cannot read without a feeling of sadness and humiliation the melancholy record of famines in India under British rule. There were reasons for famines in the last century and in the early years of this century. When an old system of government breaks down and the country passes under a new power, wars and disorders are inevitable'.⁸ When the Moghul power broke down in India, the Mahrattas and Afghans contended for supremacy; war and devastation followed. And when the British nation entered into the arena, they too took their part in many wars which impeded cultivation and harassed the population of peaceful villages. In the words of Sir Thomas Munro, wars were added to unfavourable seasons to bring on recurring famines in India. Dutt would also add to these reasons the misrule of the servants of the East India Company and the unhappy blunders which were perhaps inevitable when a new race of rulers found themselves suddenly called upon to administer the land-revenues of a strange and newly conquered country.

But he noted that these causes had long ceased to operate. In 1858, the administration of the country passed from the East India Company to the Crown and since then India had enjoyed profound peace undisturbed by a single war within her natural frontiers. The land was fertile, the people were peaceful and loyal, industrious and frugal, and generations of British administrators had been trained in the duties of Indian administration. And yet famines had not disappeared. Within forty years there had been ten famines in India, and at a moderate computation the loss of lives from starvation and from diseases brought on by these famines might be estimated at 15 millions within these forty years. 'It is a melancholy phenomenon which is not presented in the present day by any other country on earth enjoying a civilised administration'.⁹

6. Famines and economic causes of famines occupied a prominent place in his writings and an exposition of the causes of famine really resolved into an examination of the causes of the poverty of the masses. The reasons for his emphasis on famines were mainly practical. The appalling extent of the famines forced the question of Indian poverty very prominently upon the attention of the public. Secondly, it helped him to place the discussion on a tangible basis so as to be able to enlist more effectively the attention and sympathy of the British public.

He analysed the phenomena of the perpetual famines and rejected some of the oft-repeated theories of Indian famines. 'Superficial explanations have been offered one after another and have been rejected on close examination. It was said that the population increased rapidly in India and that such increase must necessarily lead to famines'.¹⁰ It was found on enquiry that the population had never increased in India at the rate of England; and that during the ten years preceding Dutt's study it had altogether ceased to increase. It was said that the Indian cultivators were careless and improvident. The argument was that those who did not know how to save when there was plenty must perish when there was want; but it was known to men who have lived all their lives among these cultivators that there

8. R.C. Dutt, "Famines in India" - p. 13.

9. R.C. Dutt, "Famines in India" - p. 16.

10. R.C. Dutt, Preface to "India under Early British Rule".

was not a more abstemious, more thrifty and more frugal race of peasantry on earth. It was said that the Indian money lender was the bane of India and by his fraud and extortion kept the tillers of the soil in a chronic state of indebtedness; but the inquiries of the famine commissions had revealed that the cultivators of India were forced under the thralldom of money-lenders by the rigidity of the Government revenue demand. It was said that in a country where the people depended almost entirely on the crops, they must starve when the crops failed in years of drought; but the crops in India, as a whole, had never failed. There had never been a single year when the food supply of the country was insufficient for the people. 'There must be something wrong', said Dutt, 'when the failure in a single province brings a famine and the people are unable to buy their supplies from neighbouring provinces rich in harvests'.¹¹

R.C. Dutt rejected most of the explanations of Indian poverty which seemed very superficial to him. He remarked, 'Deep down under all these superficial explanations we must seek for the true causes of Indian poverty and Indian famines..... The sources of a nation's wealth are agriculture, manufacture, and commerce and these are conserved by a sound financial administration. While British rule in India has brought the manifold blessings of peace and a wider civilisation, it has not widened the sources of the national wealth of the country from an Indian point of view, and has, therefore, not improved the material condition of the mass of the people to any marked extent. The mass of the people depend upon agriculture. There has been extension of cultivation, and intensively also land, perhaps, yields more now than it did before. It is not denied that the prices of agricultural produce have gone up. Still the agriculturists are no better off than they were before'.¹² The causes of Indian poverty according to Dutt were threefold:

1. Agriculture had now to support a larger population than before, on account of the gradual decay and extinction of the indigenous industries of India and the swelling of the ranks of agriculturists by men who before supported themselves by commerce or by manufacture.

2. The system of administration became more expensive and complicated than used to be the case before. A great deal of money was necessarily spent outside India and therefore the agriculturists, on whom the main burden of taxation fell, had to pay a comparatively large portion of their income and got no indirect returns as they formerly did.

3. The fiscal policy of the government and the system of land revenue assessments adopted over a large portion of India were such as to make it impossible for more than bare necessities to be left to the tillers of the soil. Dutt sought to establish a close relationship between the land assessment policy of the government with the poverty of the agriculturists and consequently with the diminution of their famine resisting powers. In his preface to 'India in the Victorian Age' Ramesh Chandra Dutt gave the following summary of the evolution of the land assessment policy of the British Government, beginning from the commercial policy pursued during the early days of the East India Company's rule, through the broad and sympathetic policy of Lord Cornwallis and Lord William Bentinck, to the more calculating and profit-seeking policy of later years.

7. The history of the Land-revenue administration in India was of the deepest interest, because it was intimately connected with the material well-being of an agricultural nation. Dutt summarized that policy very briefly thus: In the earlier years of the British rule, the East India Company regarded India as a vast estate or plantation, and considered themselves entitled to all that the land could produce, leaving barely enough to the tillers and the landed classes, to keep them alive in ordinary years. This policy proved disastrous to the revenues of the company, and a reform became necessary. The company then recognised the wisdom of assuring to the landed classes the future profits of agriculture. Accordingly, Lord

11. R.C. Dutt, Preface to "India under Early British Rule".

12. R.C. Dutt, Preface to "India under Early British Rule".

Cornwallis permanently settled the land revenue in Bengal in 1793, demanding from landlords 90 percent of the rental, but assuring them against any increase of the demand in the future. The proportion taken by the government was excessive beyond measure; but cultivation and rental had largely increased since 1793, and the peasantry and the landed classes had reaped the profits.

A change came over the policy of the East India Company. They were unwilling to extend the permanent settlement to other provinces. They tried to fix a proper share for the rental as their due, so that their revenue might increase with the rental. In North India, they fixed their demand first at 33 percent of the rental, then at 75 percent; and then at 66 percent. But even this was found to be impracticable, and at last, in 1855, they limited the state demand to 50 percent of the rental. And this rule of limiting the land-revenue to one half of the rental was extended to Southern India in 1864.

The rule of the East India Company terminated in 1858. The first Viceroys under the Crown were animated by a sincere desire to promote agricultural wealth in India. Statesmen like Sir Charles Wood and Sir Stafford Northcote, and rulers like Lord Canning and Lord Lawrence laboured with this object. They desired to fix the state demand for the soil, to make the nation prosperous, to create a strong and loyal middle class and to connect them by their own interest with British rule in India. If their sound policy had been adopted, the source of national wealth would have been widened. The nation would have been more resourceful and self-relying today. Famines would have been rarer. But the endeavours to make the nation prosperous weakened after the first generation of the servants of the Crown had passed away. Increase of revenue and increase of expenditure became engrossing objects with the rise of imperialism. The proposal of Canning and of Lawrence was dropped in 1883.

R.C. Dutt stressed the two distinct principles which were held by the two different schools of administrators. One was the school of Lord Canning and Lord Lawrence, of Lord Halifax and Lord Iddesleigh, who urged a permanent settlement of the land revenue. They knew that land in India belonged to the nation and not to a landed class, that every cultivator had a hereditary right to his own holding and that to permanently fix the land revenue would benefit an agricultural nation and not a class of landlords. The other school demanded a continuous increase of the land revenue for the State, by means of recurring land settlements in course of which the state demand was generally increased at the discretion of settlement officers.

The Marquess of Ripon was the Viceroy of India from 1880 to 1884, and he proposed a masterly compromise between the opinions of the two schools. He maintained the right of the State to demand a continuous increase of the land revenue on the definite and equitable ground of increase in prices but he assured the cultivators of India against any increase in the State-demand unless there was an increase in prices. He assured to the State an increasing revenue with the increasing prosperity of the country as evidenced by prices. And he assured to the cultivator a permanency in the State demand reckoned in the proportion of the field produce taken as land tax. Lord Ripon's scheme happily combined the rights of the State with the security to cultivators without which agriculture could not flourish in any part of the world. But Lord Ripon left India in 1884 and his wise settlement was negatived by the Secretary of State for India in January 1885. The Compromise which had been arrived at after years of inquiry and anxious thought in India was vetoed at White Hall for political reasons; and a nation of agriculturists was once more subjected to that uncertainty in the state demand which was fatal to successful agriculture.

The half-rental rule still remained in theory. But in practice it had been violated. The expenses of the Mutiny wars had vastly added to Indian liabilities, and demanded an increase in taxation. Commerce could not be taxed against the wishes of the British merchants and the British voters. The increased taxes, therefore,

fell on agriculture. Accordingly, from 1871, a number of new taxes were assessed on land in addition to the land revenue. If the land revenue was 50 percent of the rental, the total assessment on the soil, including new taxes, came to 56 percent or 58 percent or even 60 percent of the rental. It would appear from these facts that agriculture, as a source of the nation's income, had not been widened under British administration. 'Except where the land revenue is permanently settled, it is revised and enhanced at each new settlement, once in thirty years or once in twenty years. It professes to make 50 percent of the rental or of the economic rent, but virtually takes a much larger share in Bombay and Madras. And to it are added other special taxes on land which can be enhanced indefinitely at the will of the State. The land assessment is thus excessive and it is also uncertain'.¹³

R.C. Dutt argued that the land tax in India was not only heavy and uncertain, but the very principle on which it was raised was different from the principle of taxation in all well administered countries. In such countries, the state promoted the accumulation of wealth, helped the people to put money into their pockets, made them prosperous and rich and then demanded a small share of their earnings for the expenses of the State. 'In India the state virtually interferes with the accumulation of wealth from the soil, intercepts the incomes and gains of the tillers and generally adds to its land revenue demand at each recurring settlement, leaving the cultivators permanently poor'.¹⁴ R.C. Dutt pointed out how in Bengal, 'the money which is received as rent from the cultivators remains with the Zemindars in the country and is spent in fostering local trades and local industries, and in promoting education and various charities; in other parts of India the money received as rent from cultivators is imperial revenue and mostly goes out of the country in Frontier wars or in Home Charges'.¹⁵ In short, his position was:

1. The land tax of India as a whole was excessive and the principle underlying the system did not compare favourably with the system in vogue in other civilised countries.

2. The land assessment in Southern and Central India was excessive compared to the assessment in Bengal and Northern India, and the former bore an unfairly large share of the burden of the State. Assessment being periodical in these parts, not only was very little left for the agriculturists, but there was hardly any motive either to save or to improve their holdings.

8. Dutt established a connection between the resourcelessness of the agriculturists and famines. 'There is no doubt that famines are directly caused by the failure of the autumnal rains over which man has no control. But the intensity and frequency of recent famines are greatly due to the resourceless condition and the chronic poverty of the cultivators caused by the over-assessment of the soil on which they depend for their living'.¹⁶ In support of this thesis, he analysed the net revenues of India for the year 1901 which had been estimated at 42 million sterling. He showed that roughly 20 millions out of this came from land-revenue, 20 millions from other taxes including salt and 2 millions from opium. In other words he showed, 'the trades and industries of the country bring little revenue, because the trades and industries are on the decline; one half of the revenue of the country is tax on land and tax on salt and is raised from the food of the poor. Hence there is little reason for congratulation on the increase of revenues in India; that increase does not mean increasing prosperity, but only an oppressively increasing taxation on the food supply of the people'.¹⁷

13. R.C. Dutt, Preface to "India under Early British Rule".

14. R.C. Dutt, Preface to "India under Early British Rule".

15. R.C. Dutt, "Paper on peasant proprietors in India".

16. R.C. Dutt, "Famines in India".

17. R.C. Dutt, "Famines in India".

He realised that any limitations on the land revenue were not possible without some check on the growing and ruinous expenditure of the Indian government. His position was that they could not moderate the revenue demand without moderating the expenditure and that they could not give relief to the over-taxed cultivator without economy and retrenchment. Hence he recommended that the Excise Tax on Indian Mill industry should be withdrawn and the Indian Government should boldly help Indian industries for the good of the Indian people, as every civilised government on earth helped the industries of its own country. All taxes on the soil in addition to the land revenue should be repealed; and the land revenue should be moderated and regulated in its operation. The Public debt, unjustly created in the first instance, was now an accomplished fact; but he thought that an imperial guarantee would reduce the rate of interest, and a Sinking Fund would gradually reduce its volume. Civil and military charges incurred in England should be borne, or at least shared, by Great Britain, as she shared them in the case of her colonies. Civil charges in India should be reduced by a larger employment of Indians; military charges in India should be curtailed with a strong hand; and India should pay for an army needed for her own requirements. All further extension of railways from state loans or under guarantee of interest should be prohibited. Irrigation works should be extended, as far as possible from the ordinary revenues. The annual economic drain from India should be steadily reduced. In carrying out these fiscal reforms, Dutt wanted that the representatives of the people of India - of the tax-payers who are alone interested in retrenchment in all countries - should be called upon to take their share and offer their assistance.

9. The views of Romesh Chandra Dutt aroused adverse criticism both in official and non-official circles which may be broadly classified as (1) criticisms pertaining to the alleged fallacies underlying his analysis of the causes of Indian famines and (2) those regarding the accuracy of the data on which Dutt based his views and his suggestions for improving the land assessment policy of the government. In his reply to Lord Curzon's Resolution on the subject, Dutt contended that (1) he did not recommend the extension of the Permanent Settlement (2) that he had not said that the permanent settlement had saved Bengal from famines, but that the Bengal ryot was better able to withstand a famine than his less favoured brothers of Southern India. Dutt had also distinctly referred to the beneficial results of the Tenancy Act.

Dutt wanted that the Government as a landlord should impose the same limitations on its demands as it fixed on private landlords. The charge that he had not pleaded for a limitation of the Zemindar's claims against the ryot was not fair. As he himself wrote in February, 1899 to the Pioneer, 'I hold no brief for Zemindars or Taluqdars or Malguzars or landlords of any class. I hold and I have held all through my official life that the actual cultivator of the soil should be lightly assessed. The cultivators are the nation in India and if they are well off the nation is prosperous and resourceful and famines would not be the terrible calamities that they are now'.¹⁸ He again made his position quite clear on this question in a letter addressed to Sir Anthony Mac Donnell on 14th September 1900. 'You can accept my assurance that the obvious desire of landlords to be left unfettered in the matter of enhancing rents, and dealing with their ryots as they like, has never received my support, and shall never receive any support, direct or indirect, from me, in whatever capacity I may work for my country'.

In the resolution of Lord Curzon's Government, it was stated as a reply to Dutt's arguments 'It is not necessary to discuss the economic fallacy that any alteration in the system or scales of assessments can permanently save an agricultural population from the effects of a climatic disaster'. 'Nevertheless', continued the Resolution, 'if the prevention of the inevitable consequences of drought be an ideal incapable of attainment, mitigation is manifestly an object worthy of the closest attention of the government. It cannot but be the desire that the assessments

18. R.C. Dutt, quoted by Mr J.N. Gupta, "Life and Work of R.C. Dutt" - p. 349.

should be equitable in character and moderate in incidence; and that there should be left to the proprietor or to the cultivator of the soil - as the case may be - that margin of profit that will enable him to save in ordinary seasons and to meet the strain of exceptional misfortune'. In this passage, the Government of India fully recognised the cardinal principle urged by Dutt so often that 'in an agricultural country like India, the prosperity and well-being of the nation greatly depend on the incidence of the land revenue which should be moderate and equitable; and that land assessments should be made so as to leave to the proprietor, or the cultivator of the soil, a margin of profit which will enable him to save in ordinary years to meet the strain of exceptional bad harvest'.

The position of the government, as made clear by the Resolution, was not that there was no connection between land revenue assessment and famine resisting powers of the farmers but that the connection was remote and that poverty of the agricultural class was attributable to other and more potent and direct causes. The real difference between Government and their critic Dutt would, therefore, appear to be that, while the Government of India held land assessments to be a negligible and unimportant factor in the discussion of famines and their remedies, Dutt held the reduction of land tax to be most important, not in preventing famines, but in adding to the famine resisting powers of the people. According to him, under the prevailing circumstances of the agriculturists in the country, the only practical way of helping the cultivators was to relieve them to some extent of the burden of rent which they had to pay either to a private landlord or to a government. He did not deny that the spread of education, the organisation of credit, the cultivation of the habit to save, the multiplication of occupations and a diversion into industrial and commercial channels of the surplus population on land, were the more permanent remedies for the eradication of the poverty of the agricultural classes. He only maintained that in the existing conditions it would take considerable time for the above factors to be effectively operative. In the meanwhile the only practical way to relieve the poor peasantry would be to lighten the burden of taxation.

The controversy between Dutt and the Government produced many important results. It brought about a full and exhaustive statement of the government policy on the question and in the process gained for the cultivators some substantial concessions.

10. R.C. Dutt argued that unsatisfactory forms of agrarian structure, and in particular systems of land tenure, tended in a variety of ways to impede economic development in the country. In his view, this institution reduced the farmers' living standard below the level which might be attained even with the existing methods of cultivation and blocked any long term increase in productivity because it prevented investment both by reducing farmers' funds for investment, and by reducing incentives to increase production. Dutt made a distinction between three different aspects of the agrarian structure: (a) The land tenure system; (b) agricultural organisation; and (c) the influence of general economic conditions on the agrarian structure. Certain features of the land tenure system in India were major limiting factors on economic development, as for example, fragmentation of holdings, lack of credit facilities or of adequate marketing organisation and of agricultural services. Another feature of the agrarian structure in India, R.C. Dutt pointed out, was the result of conditions external to the agrarian structure, not inherent in the system itself - the uneconomic size of the majority of farms. This was due to the unequal distribution of land and the land-tenure system; but it also existed in the provinces where peasant ownership prevailed and where there was no great inequality in land ownership, if pressure of population on the land caused subdivision of farms to an extreme. In this case the uneconomic size of a great number of farms, according to R.C. Dutt, was a symptom of lack of industrial development. A change in the scale of farm operation, if it was to be successful in raising the standard of living and promoting development, must be followed by a change in the type of production; and he held that this change would not take place simply as a result of peasant ownership, unless market and credit conditions were favourable. He showed also that reform of land tenure on a limited scale was not a sufficient remedy for rural over-population.

11. Problems of economic development in India.

Romesh Chandra Dutt could not envisage any long term increase in agricultural productivity in rurally over-populated India without a greater measure of industrial development. He held that industrialisation could aid the increase of agricultural production directly, by providing a market for its produce, either through the expansion of demand for agricultural raw materials; and indirectly, by providing alternative means of employment for the rural population.

R.C. Dutt attached great importance to this question which led him to a historical analysis of the whole problem. One important factor, in his view, which contributed to the poverty of the Indian people was the decline and destruction of the indigenous industries and manufactures during the early years of British rule. 'In many ways, the sources of national wealth in India have been narrowed under British rule. India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the products of the Indian loom supplied the markets of Asia and of Europe. It is, unfortunately, true that the East India Company and the British Parliament, following the selfish commercial policy of a hundred years ago, discouraged Indian manufactures in the early years of British rule in order to encourage the rising manufactures of England. Their fixed policy, pursued during the last decades of the eighteenth century and the first decades of the nineteenth, was to make India subservient to the industries of Great Britain, and to make the Indian people grow raw produce only, in order to supply material for the looms and factories of Great Britain. This policy was pursued with unwavering resolution and with fatal success; orders were sent out to force Indian artisans to work in the Company's factories; commercial residents were legally vested with extensive powers over villages and communities of Indian weavers; prohibitive tariffs excluded Indian silk and cotton goods from England; England's goods were admitted into India free of duty or on payment of a nominal duty.

The British manufacturer, in the words of the historian H.H. Wilson, employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms; millions of Indian artisans lost their earnings; the population of India lost one great source of wealth. It is a painful episode in the history of British rule in India; but it is a story which has to be told to explain the economic condition of the Indian people and their present helplessness dependence on agriculture.¹⁹ The process of the decay of Indian manufactures through the decades was accurately traced by Dutt in his preface to the second volume of his 'Economic History of India'. When Queen Victoria ascended the throne in 1837, the evil had been done. But nevertheless there was no relaxation in the policy pursued before. Indian silk handkerchiefs still had a sale in Europe; and a high duty on manufactured Indian silk was maintained. Parliament inquired how cotton could be grown in India for British looms, not how Indian looms could be improved. Select Committees tried to find out how British manufactures could be revived. Long before 1858, when the East India Company's rule ended, India had ceased to be a great manufacturing source of the nations' subsistence.

British merchants still watched and controlled the Indian tariff after 1858. The import of British goods into India was facilitated by the reduction of import duties. The growth of looms and factories in Bombay aroused jealousy. In 1879, a year of famine, war, and deficit in India, a further sacrifice of import duties was demanded by parliament. And in 1882, all import duties were abolished except on salt and liquor.

But the sacrifices told on the Indian revenues. In spite of new taxes on the peasantry and new burdens on agriculture, India could not pay her way. In 1894, the old import duties were revived with slight modifications. A five percent duty was imposed on cotton goods and yarns imported into India, and a countervailing duty

19. R.C. Dutt, "Economic History of India under Early British Rule" - p. 8.

of 5 percent was imposed on such Indian cotton fabrics which competed with imported goods. In 1896, cotton yarns were freed from duty; but a duty of $3\frac{1}{2}$ percent was imposed on cotton goods imported into India, and an excise duty of $3\frac{1}{2}$ percent was imposed on all goods manufactured in Indian Mills. Coarse Indian goods which did not in any way compete with Lancashire goods, were taxed - as well as finer fabrics. The miserable clothing of the miserable Indian labourer, earning less than $2\frac{1}{2}$ d a day, was taxed by a jealous government. The infant mill industry of Bombay, instead of receiving help and encouragement, was repressed by an excise duty unknown in any other part of the civilised world. During a century and a half the commercial policy of the British rulers of India had been determined, not by the interests of Indian manufacturers, but by those of British manufacturers. The vast quantities of manufactured goods which were exported from India by the Portuguese and the Dutch, by Arab and British merchants, in the seventeenth and eighteenth centuries, had disappeared. India's exports now were mostly raw produce - largely the food of the people. Manufacturing industry as a source of national income had been narrowed. Dutt was, however, conscious that it was not alone the selfish policy pursued during the early years of British rule which was responsible for the decay of the Indian industries. He saw how 'the invention of the powerloom in Europe completed the decline of Indian industries'.²⁰ However, it was his considered view that 'it would be a needless waste of time to refer to-day to those causes which led to a decline and decay of Indian manufactures from the middle of the eighteenth to the middle of the nineteenth century. The internal wars among contending nations in India was one cause; the commercial policy of England in those days was a second potent cause; and the discovery of powerlooms in England was third'.²¹

12. In his early writings, he did not formulate any constructive plan for the revival of indigenous industries and his views on the prospects of industrial development emerged only at a later period. He was not satisfied with the prospects of industrialisation through the medium of foreign capital since it held a dominant political position in the country. Though such industries gave employment to hundreds of thousands of Indian labourers, he believed that the condition of the people of India could not be improved 'without fostering their own industries, carried on by themselves in their towns and villages. You cannot add to the wealth of the Indian people except by wise legislation tending to promote and help their own national undertakings'.²² He did not agree with the view that the increase of foreign trade must mean the prosperity of the people in the special situation obtainable in India. He said, 'We have no desire to minimise the prosperity of the English trade with India which the figures indicate; but when they are brought forward to prove that the material condition of the industrial and agricultural population of India has improved, a great fallacy is committed. Among the many blessings which England had conferred on India, the encouragement of Indian industries is not one. The increase of the value of imports into India really means that the manual industries of India have died out in an unequal competition with the steam and machinery of England. And the increase in the value of exports from India means that vast quantities of food and raw material have to be sent out from India to pay for imported English goods'.²³

Another limiting factor on economic development of the country, and consequently a great cause of its poverty, according to him was the unsatisfactory character of the financial relations governing India and England which prevented a policy of retrenchment and economy being followed. 'If we turn from the sources of wealth to its distribution, and to the financial arrangements of India, the same melancholy picture is presented to us. The total revenues of India during the last ten years

20. R.C. Dutt, Preface to "Economic History of India under the Victorian Age".

21. R.C. Dutt, "Surat Speech", 1907.

22. R.C. Dutt, "Glasgow speech", 1901.

23. R.C. Dutt, "Glasgow speech", 1901.

of the Queen's reign - 1891/92 to 1900/01 - came to 647 millions sterling. The annual average is thus under 65 millions, including receipts from railways, irrigation works and all other sources. The expenditure in England during these ten years was 159 millions, giving an annual average of nearly 16 millions sterling. One fourth therefore, of all the revenues derived in India is annually remitted to England as Home Charges. And if we add to this the portion of their salaries which European officers employed in India annually remit to England, the total annual drain out of the Indian revenues to England considerably exceeds 20 millions. The richest country on earth stoops to levy this annual contribution from the poorest. Those who earn £ 42 per head ask for 10 s per head from a nation earning £ 2 per head. And this 10 s per head which the British people draw from India impoverishes Indians, and therefore impoverishes British trade with India. The contribution does not benefit British commerce and trade, while it drains the life-blood of India in a continuous, ceaseless flow. For when taxes are raised and spent in a country, the money circulates among the people, fructifies trades, industries, and agriculture and in one shape or another reaches the mass of the people. But when the taxes raised in a country are remitted out of it, the money is lost to the country for ever; it does not stimulate her trades or industries or reach the people in any form. Over two million sterling are annually drained from the revenues of India; and it would be a miracle if such a process continued through long decades, did not impoverish even the richest nation on earth'.²⁴

The total land revenue of India was 17½ millions in 1900-1. The total of Home Charges in the same year came to 17 millions. It would be seen, therefore, that an amount equivalent to all that was raised from the soil in all the provinces of India and was annually remitted out of the Country as Home Charges. An additional sum of several millions was sent in the form of private remittances by European officers, drawing their salaries from Indian revenues; and this remittance increased as the employment of European officers increased in India.

The 17 millions remitted as Home Charges were spent in England (1) as interest payable on the Indian debt. (2) as interest on railways; (3) as Civil and Military Charges. A small portion, about a million, covered the cost of military and other stores supplied to India.

A very popular error prevailed in the country that the whole Indian debt represented British capital sunk in the development of India. It was shown by Dutt that this was not the genesis of the Public Debt of India. When the East India Company ceased to be rulers of India in 1858, they had piled up an Indian debt of 70 millions. They had in the meantime drawn a tribute from India, financially an unjust tribute, exceeding 150 millions, not calculating interest. They had also charged India with the cost of Afghan, Chinese and other wars outside India. Equitably, therefore, India owed nothing at the close of the Company's rule. Her Public Debt was a myth. There was a considerable balance of over 100 millions in her favour out of the money that had been drawn from her.

Within the first eighteen years of the administration of the Crown the Public Debt of India was doubled. It amounted to about 140 millions in 1877, when Queen Victoria became the Empress of India. This was largely owing to the cost of the Mutiny wars, over 40 millions sterling, which was thrown on the revenues of India. And India was made to pay a large contribution to the cost of the Abyssinian war of 1867.

Between 1877 and 1900, the Public Debt rose from 139 millions to 224 millions. This was largely due to the construction of railways by guaranteed companies or by the state, beyond the pressing needs of India and beyond her resources. It was also largely due to the Afghan wars of 1878 and 1897. The history of the Indian debt was a distressing record of financial unwisdom and injustice; and every impartial man could reckon for himself how much of this Indian debt was morally due from

24. R.C. Dutt, Preface to the "Economic History of India in the Victorian Age".

India. The items of the Home Charges were the civil and military charges. This needed a revision. If Great Britain and India were both gainers by the building up of the British Indian Empire, it was not fair or equitable that India alone should pay all the cost of the maintenance of that superb edifice. It was not fair that all the expenses incurred in England, down to the maintenance of India Office and the wages of the charwoman employed to clean the rooms at White Hall, should be charged to India'.²⁵

These were the plain facts of the economic situation in India. 'Given these conditions any fertile, industrious, peaceful country in the world would be what India is to-day. If manufactures were crippled, agriculture over-taxed and a third of the revenue remitted out of the country, any nation on earth would suffer from permanent poverty and recurring famines. Economic laws are the same in Asia as in Europe. If India is poor to-day it is through the operation of economic causes'.²⁶

13. An estimate.

R.C. Dutt was not merely an economic historian, in the sense he would investigate critically and descriptively certain periods of Indian economic development. His primary concern was the critical analysis of historical sources. He was also a student of cultural history who fused economics, politics, history and law into a universal cultural history. He succeeded in producing a basic foundation for cultural and economic history in which the various threads were combined and woven into new pattern true to life. Dutt's strength derived from a realistic sense of all the detail of economic life. He attempted to make the question of public life more profound by laying bare the economic processes. The study of antiquity, the investigation of statistical data and the study of political and social conditions - all served him only as empirical material for the formulation of general principles relating to the march of political and economic history. One could almost say that Dutt had in mind a general theory of history, the laws of general historical development.

Dutt viewed with admiration the liberal basis and the significant doctrines of the classical school of economics. His books were designed to point out to the future government the aims of practical politics which appear justified to him. His judgement on practical questions were illuminated by the study of history and the ideas of administrative practice. He desired to fit into a larger historical context what was found to exist at a given time.

Historically speaking, Dutt regarded Indian economy as one of arrested growth rather than a non-developed or underdeveloped economy. He saw clearly how industrial development in India was conditioned and to a large extent limited, by such factors as the lack of capital, the shortage of skilled workmen and the low level of purchasing power in the internal market. He believed that industrial development, promoted by foreign capital investment in certain branches of production which supply an export market, might not necessarily benefit the agricultural population as a whole. The industrial development of this kind might achieve some expansion of production without adding to the increase of agricultural production at all. To avoid the effects of such one-sided development and to secure full benefits to the agricultural population he thought it necessary that a general industrial development should be planned on a wider basis as to serve the needs of agriculture. Because India remained mainly agricultural, it was too often assumed that the urgent necessity was to improve methods of agricultural production first, before there could be any general advance. But Dutt realised very clearly that many of the benefits which might be achieved by reform of the agrarian structure might be nullified if there was not simultaneous development in other sections of the economy. His approach to the problem of raising living standards of the country was an integrated one; he did not pursue economic development to the exclusion of all other values of society.

25. R.C. Dutt, Preface to "Economic History of India under the Victorian Age".

26. R.C. Dutt, Preface to "Economic History of India under the Victorian Age".

Chapter 6

The Quality of Early Indian Economic Thought

1. The last quarter of the nineteenth century and the first of the twentieth century were full of events which seemed to herald the founding of a new era in economic and political organisation in India. In the field of production it witnessed the march of industrialisation, particularly in cotton textiles and plantations. New forms of social relations and of social thought were in the air. The founding of the Indian National Congress in 1880 registered the profound change in ideology. Social thought became self-conscious which in time showed a greater awareness than hitherto of the quality of the social order which was coming into being. It became more capable than before of seeing the whole structure of that order in the complex interrelation of its component parts. The social ideas of men like Dadabhai Naoroji, Mahadev Govind Ranade, Gopal Krishna Gokhale and Romesh Chandra Dutt, who dominated the Indian national movement of this period seemed to have sprung from a common, integrated and comprehensive social philosophy. Scattered fragments of ideas were collected, refined and bound to make a body of doctrines possessing a fair degree of internal consistency.

Indian economic thought grew round Indian nationalism as its centre. It was linked with the early and active days of India's solicitude for Home Rule. The position of Indian National Congress as the only organised body on a nation-wide scale, a political organisation at once influential and important, acquired for its leaders and their pronouncements a national and popular character. The Congress did not evolve an economic platform as such; it had still to clearly formulate its demands on matters of economic policy per se. Its economic thinking was concerned more with practical economic problems of India, and its periodical utterances on economic matters were either as a protest against an irresponsible governmental measure or as a possible guide on matters of general public policy. India was a dependent country and she could not have an Economics of her own; yet the grave economic issues of the internal and foreign markets of the country held the minds of her leaders who, in those circumstances, became the representatives of the rising bourgeoisie in the country. J. Stalin was probably right when he said, 'Market is the first school in which the bourgeoisie learns its nationalism'.¹

2. The social philosophy behind early Indian economic thought was characterised by two distinct layers of thinking - Eastern and Western. Locke and Leibniz, the philosophers of the Classical English political economy, mixed freely with the native liberalism and cosmopolitanism before a comprehensive world view corresponding to the changed realities emerged. Of this new cosmology in India, Western Philosophy, English Classical Economics and German Historical school were the main constituents.

The decline and the dissolution of the medieval system of life had thrown Indian society into a crisis. Slowly did the conception that there was a deep antagonism between man and nature, self and universe, grow up; and their mutual relation, as Indian thinkers began to see it, was one of action and reaction. The action of nature on man found a new place in Indian ways of thinking; the action of man upon nature furnished the content to the Indian thinkers' analysis of social life.

Their analysis was applied not only to physical knowledge but also to ethics and morality, perhaps in a lesser degree. The realisation that while physical experience came to men directly, morals and ethics were essentially social products, and thus could be easily involved in prejudice, struck at the root of many traditions and superstitions. The social reform movements of Raja Ram Mohan Roy and others were the culmination of this thought process. The revolt against traditionalism naturally resulted in individualism which marked a significant turning point in Indian social thought and history. This individualism did not, however,

1. J. Stalin, "Marxism and the National and Colonial Question" - p. 15.

appear to the Indian mind as the supreme guarantee of universal harmony, as it did in Europe. If there was any difference at all between the two, it was only that Indian thinkers were simultaneously led to believe that premeditated, planned rational action was more likely to reach the common aim of individual happiness and social welfare than unreflecting natural action. Perhaps foreign domination and the arrested development of the country's economy might account for this significant emphasis.

3. Another dynamic factor in the total situation was belief in progress. India believed in evolution, but the inner stream of continuity was never lost, for, as her ancient philosophy had declared, the cycles were bound together by an organic tie. Backward eddies served rather to strengthen than retard the current. Epochs of decadence, like the recent past of foreign domination, were considered as periods of transition from the old life to the new. It was believed that at one stage the forces of evolution pressed forward with a persistent sweep, at another the course swayed to and fro, and sometimes the forces of retrogression seemed to overwhelm those of progression, but on the whole the record was one of advance. Side by side was the belief that there was nothing wrong in absorbing the culture and science of other peoples: only we must select and enrich the elements we took over and fuse them with the best of our own. The right procedure regarding the act of fusion was indicated roughly in the writings of Ranade, Gokhale and Dutt. In them was seen the faint promise of the future, some signs of a triumph over scholasticism as well as response to the discovery of a great culture. While drawing upon the foundations of a humanist idealism in India's past, they showed a keen appreciation of Western thought.

The mainspring of the whole process was the growth, extension and strengthening of a type of personality, less prevalent in earlier times, whom we might call the businesslike man. The first advance of commerce and industry provided an environment favourable to his growth, which in its turn carried these advances on. His chief trait was his devotion to the gospel of work. The motives of his activity were acquisitive and creative, and they became the main source of the slow accumulation of capital in India. Another of his well-known traits was the 'formal rationality of economic action'. It indicated the value of quantitative calculation or accounting which came to be applied on a large scale. He was the opposite number of the traditionalist whose working life followed a pattern which his forefathers had observed from time immemorial and which he himself had no thought of changing. The development of communications in India promoted the growth of this type of individual and soon his class grew in numbers.

4. The distinguishing characteristics of the economic analysis contained in the works of Dadabhai, Ranade, Gokhale and Dutt, might be thus summarized. The first and foremost should be the insight which they revealed into the economic mechanism of their time. With rigorous analysis, they tried to lay bare the principles which underlay the working of the foreign imperialist system together with the historical development which produced it. To this Dadabhai Naoroji added an attempt to discover a 'Drain Theory' - a theory which brought out the essence of the economic exploitation implicit in foreign rule. He showed that it might well be possible for trade with a colony to be so regulated that it should at the same time be less beneficial to the colony and more beneficial to the imperial country in the context of political subjection. Since the system was built upon compulsion, restriction and monopoly, the 'drain' depressed the industry of the colony and enabled the metropolitan country to recover more labour in exchange for less labour. To define precisely the economic relationship which characterised colonialism was not easy. This relationship represented a form of exploitation of one area by another through trade, or through investment which was aided and abetted by political power against the colony. The 'Drain Theory' showed that modern imperialism was characterised by a new feature, viz., exploitation through trade, through investment of industrial capital in the Colony and through the expanded employment of foreigners in the administration, the army and the industry.

The second claim of these economists to distinction lay in the fact that they were the first to recognize that causes of India's poverty and the laws of the workings of Indian society, including history, could be discovered. It was this appreciation of the inner laws of social phenomena which gave to their work its scientific character. This again led them to think in terms of planned economic development, though they were limited in their technical analysis as well as in their views about the validity of the laws of Indian economic order. They however showed to subsequent economists the need for a unified principle of explanation of economic phenomena in the special circumstances of foreign domination. Building on the foundation of the English Classical School and the German Historical School, they tried to give a complete picture of the economic process. A school of Indian economic thought which sought to amplify, correct and supplement the economic theories and assumptions which had found general favour in the West, but modified in the light of Indian experience and Indian needs, was thus developed. It was provoked by a legitimate desire to create in India a specific body of economic thinking that would take proper account of and lay special stress on the peculiar conditions, motives, practices and institutions of the Indian people. 'Indian Economics owes its birth to an intellectual revolt. It was, in its origin, a protest against the policy of the political authority in India which by its sins of omission and commission proved to be out of accord with the requirements of the healthy economic advancement of the people as well as the natural, the cultural and the social conditions of the country'.²

5. The theory of economic development which was developed by these thinkers was rich in historical implications. It was their deliberate intention to combine historical, statistical and theoretical analysis in a comprehensive exposition. Their combination of the different techniques of analysis was in fact highly original. Ranade and R.C. Dutt broke new ground at many important points, in particular in the fields of analysis of Indian economic structure as well as in the combination of the techniques of development-planning of a pioneering character. A method was developed for the interpenetrating use of the different techniques. This body of economic literature stood in a somewhat special class, because the principles of historical interpretation supported the requirements of empirical analysis and documentary verification. History and theory were thus brought together in what was to be a unified system with sufficient concern for principles of fair criticism. It might be said that they were sociological theories with historical elements, but the name should not matter. Ranade's concept of development afforded a basis for the comprehensive analysis of events in terms of history, statistics and economic theory.

There were four main dynamic factors of development to which the early Indian economists had given attention. These factors of production were labour, resources, capital and economic organisation. Labour appeared as the main factor upon which the productive power of the nation depended. The resources of the country, mainly land and mineral wealth, were regarded as an energizing and inexhaustible factor of development. Accumulation of capital was regarded initially as amassing of funds with which employment could be given to labourers³; but Ranade developed the idea as the creation of instruments of production or mechanical equipment, in growing complexity and abundance. To a large extent these factors were regarded as interdependent and as facets of a single organic process of development. The early economists regarded capital accumulation, and the developments which it generated, as a self-perpetuating process, provided that no external factors (such as interference or restrictions peculiar to foreign domination) were placed in its way. They assumed that subsistence for workers and the raw materials of industry were present in abundance - that their supply could be increased with proper organisation under conditions of constant or even decreasing cost.

2. Prof. V.G. Kale, "Indian Economics", Vol. I.

3. See - Dadabhai Naoroji.

There was a clear realisation on the part of these economists that a rise in agricultural productivity was apt to be contingent upon a certain degree of development of industry. This involved very substantial investments of capital; but the availability of financial resources in the country was extremely limited. The problems of economic development were, therefore, viewed exclusively from this angle. It was realized that full use could not be made even of the existing potential savings, because the undeveloped economy of India lacked the financial institutions and methods whereby these savings could be mobilised and canalised into developmental purposes. This basic fact of the Indian scene led Indian thinkers to believe that the problem of economic development in India was essentially not a financial one, but a problem of economic organisation. This belief naturally led all the early economists to ardently support state intervention in economic affairs and central planning. From this formulation of the problem it followed that the construction of a general scheme of dynamic development must be based on investigation into the character of the planning of the economic subjects. And this investigation was to be founded on certain assumptions regarding technical, institutional and political conditions, which, of course, should as much as possible approximate to reality. Thus a systematic exposition of a general theory of economic development with special reference to the arrested and backward nature of the economy was the most significant contribution of the early economists.

6. In the field of economic policy, the contribution of the early Indian economists assumed a practical significance. Dadabhai Naoroji, Gokhale and R.C. Dutt supplied an historical account of actual economic policies pursued by various administrators of British India and attempted to choose between the recommendations formulated by various schools of thought. In every case, they succeeded in formulating a 'national' policy. The main considerations applied to quantitative and qualitative policy alike in trade, agriculture, credit and marketing, and public expenditure, both civil and military. Much attention was paid to their interdependence; the targets and instruments of each of these components, though often considered in isolation, were viewed in the total context, and their general coherence was never neglected. This gave a peculiar and significant quality to the criticisms of economic policy formulated by the early economists, which the official government policy did not possess. The consciousness of what the general interest of the masses of the population implied and how to achieve them peacefully, had been considerably developed during this period.

The main purpose was to increase the total consumption of the poverty-stricken masses; and, therefore, the economists were seriously concerned with the distribution of the national product over (i) classes, (ii) industries (national and foreign), and (iii) persons (Indians or foreign). They made a distinction between the contents of the economic policy and its organisation. In the context of India which lacked a national government, the contents of their policy were influenced by a considerable number of non-economic factors such as denial of representation of tax-payers in the legislature, harmful and destructive laws and the consequent psychological factors affecting the national confidence. The lack of data and uncertainty made the task of policy-making extremely difficult. Yet it should be said to the credit of Dadabhai, Ranade, Gokhale and Dutt that they provided India with the concrete framework of a national economic policy which was more realistic than what the foreign administration could offer. They left the refinement to future discussions and research work.

7. The nature and significance of economic activity on the part of the State was properly understood by the four economists under study. The coming of the machine age meant a tremendous influx of energy which penetrated to the very heart of economic life, while the rest of the social order was in many respects unaffected. It was realized that a growing society needed pioneers and a centralized and disciplined mass technique which would leave ample scope for individual adjustment and at the same time keep pace with the problems created by economic development. Regarded purely from the standpoint of efficiency, the laissez faire State, especially in the context of an underdeveloped economy, wasted an immense amount of energy.

These economists believed that, owing to its lack of planning, the laissez faire technique weakened or even destroyed with one hand the benefits which it had received with the other. Coordination of purpose, it was thought, would save time and energy. It was argued that developmental planning would necessitate rational thinking and eliminate irrational and emotional attitudes. In their view, there was an economic purpose embodied in the State as an organisation for enabling the mass of men to realise social good on the largest possible scale.

Most of the key industries, communications and transportation had thus to be brought under state control and in some cases, state ownership. A gradual extension and amplification of the control of the State was advocated, provided that it did not discourage or interfere with private initiative and enterprise. This meant neither socialism nor totalitarianism of a doctrinaire sort, but the development of what is now called 'mixed' economy within the framework of parliamentary democracy. What they probably had in mind was only a State armed with more effective legal powers and with the more monopolistic economic units owned by the State and directed to the service of the public interest.

8. From yet another angle, early Indian economic thought could be described as attempts at welfare analysis at the physical level since it implicitly assumed that quantities of satisfaction of given wants were roughly proportional to the quantities of physical products, and since it concentrated on the methods of increasing the quantity and the physical productivity of resources as the most important means of increasing the economic welfare of the Indian population. It was agreed among them that the final aim of all production was consumption, and that in the ultimate analysis wealth must consist in quantities of consumers' satisfaction. They thought that under conditions of a subsistence economy more substantial additions to the wealth of a nation could be made by increasing the volume of physical output in agriculture, industry and mineral wealth. Another substantial factor determining the wealth of a nation and its welfare was the proportion in which its labour was used between 'productive' and 'unproductive' purposes. At the same time they maintained that capital accumulation was the mainspring of economic progress and accepted it as the main factor influencing physical productivity and, in consequence, human welfare. The early Indian economists adopted a quantitative criterion and tried to establish the proposition that potential gains to be obtained by increasing physical productivity and the volume of economic activity should be set as a target for any development planning.

It is thus clear from the above brief survey that a proper understanding of the realities of the Indian situation, inclusive of ideology, enabled the early economists of India to lay the foundations of an economic policy which has its immediate lessons for the India of to-day. While it is true that they were not economic theorists, that is, not academic ones, they had all the qualities of classical thinking with its faith in the amenability of social phenomena to treatment in terms of social laws and in the context of history. Nobody will claim them as speculative thinkers in the field of Economics. But their unquestioned patriotism and knowledge of the Indian situation give them easy titles to the entry of the temple of the history of economic ideas in India.



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